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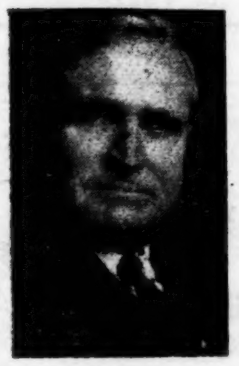
Scores Businessmen For Failure to Combat "Unlimited" Govt.

William C. Mullendore, Coast utility executive, urging greater activity and more alertness among businessmen in protesting destructive forces undermining our American way of life, says we we are acquiescing in slow strangulation of vital factors of our economic strength.

"Beguiled by the diversions and feverish activity of an inflation-induced false prosperity, we are either ignoring, or weakly protesting the destructive forces which are undermining our American way of life, and even the civilization of which we are supposed to be the principal guardian. At a time when, as never before, we need all our strength, we are acquiescing in the slow strangulation of the principal factors of that strength, namely, limited government, sound money, a free market, and other basic elements of our free enterprise system. In short, we are pathetic because of our lack of awareness and alertness at a time of our country's and the world's greatest crisis."



Wm. C. Mullendore

The above are quotations from

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Stock Market Forecast

By ANTHONY GAUBIS
Investment Counselor

After weighing favorable and unfavorable factors in business and stock market outlook, Mr. Gaubis analyzes psychological aspects which appear to be dominating situation. Argues, from technical standpoint, low Dow-Jones Industrial Average of 1946 will not be broken and trend of market will probably be upward throughout early months of 1949. Says it is reasonable to expect business to hold present levels during most of coming year and sees deteriorating relations with Russia, short of shooting war, already discounted.

The action of the stock market during the past three years re-emphasizes the soundness of Jesse Livermore's three rules for successful investing: "Patience, more patience, and still more patience." It also has demonstrated once again the danger of taking too seriously the implications of any single approach to the problem of appraising the outlook for either stock prices or general business activity.

Anthony Gaubis

It is almost exactly two years since the Dow - Jones Industrial Average recorded its low for the period which has elapsed since V-J Day. It would seem worthwhile and helpful to recall the developments during this period which were considered "dominant" either because they were so widely publicized, or vice versa.

First and foremost was the Washington prediction that we would have at least eight or ten million unemployed within a few months after the end of World War II. This conclusion was the basis for the first post-war round of inflationary wage increases, which was more or less forced on business by the government "to help prevent deflation." We are

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Depressed Markets for High-Grade Preferred Stocks

By ROBERT E. NIEBLING

Mr. Niebling, citing current unusually large spreads between bonds and preferred stocks, ascribes this to combination of temporary factors, including unbalanced supply-and-demand relationship. Cites tax advantages of preferreds to corporations. Declares successful stabilization of long-term government bond market, and abolition of double taxation of dividends, would greatly improve their market position.

Certain students of interest rates have been interested in examining, over a period of time, the differentials in yields of high-grade preferred stocks and of high-grade long-term bonds. A study of this subject made a few years ago by Wood, Struthers & Co., which examined data back to 1931, noted a striking correlation between the two yields; the study showed that in both strong and weak markets the differential had consistently been maintained in a narrow range around 1%.

Robt. E. Niebling

But in the last year or so the spread has widened considerably, to the extent that the preferred stocks of excellent companies are available at prices to yield 1½% or more in excess of the yield given by the same companies' bonds.

A demonstration of how greatly this yield differential has widened is given in Table I, which compares the yields given at public offering prices of long-term bonds

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As We See It

EDITORIAL

The Farm Program as an Example

The situation by which the Federal Government is faced in its efforts to place a floor under farm prices affords an example of the basic infirmities in any and all managed economy procedures. The facts are accordingly worthy of study. It was discovered during the depressed days of the 1930's that the prices of farm products, by and large, were lower when compared with pre-World War I than the prices of the goods farmers were buying when measured in the same way. This the bright New Deal boys soon came to regard as a rank injustice since it indicated, so they believed, that the farmer had "lost ground" as compared with the manufacturer and others in the economy who provided the farmer with the goods and services he needed to produce his crops and "to keep up with the Joneses" in the matter of day-to-day living.

These agricultural statisticians and these seekers after farm votes soon developed what they called "parity" prices. These were the prices necessary to restore the relationship, so far as prices could restore it, that existed in a selected earlier period between agri-

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Exaggerated Froth in Business Outlook

By ALAN H. TEMPLE*
Vice-President, The National City Bank of New York

Leading bank executive analyzes inflation and deflation forces in current business situation, and contends analogy with conditions following World War I is deceptive. Points out automatic compensatory devices as well as conscious measures are at work to halt inflation. Holds also, increased production together with conservatism and good sense shown by business, which has been fortified by fear "bust is around the corner," are counteracting inflationary pressures. Contends insufficient attention has been given to our financial strength and current absence of real monetary strain.

You gentlemen of the Controllers Institute represent many industries and trades, and you constitute a representative cross-section of American businessmen. Therefore I venture to say that when you crystallize your feelings about the business outlook you reflect the same differences that are to be seen in business sentiment generally today. If you are in steel or automobiles or in utility or railroad equipment, probably you feel little concern about 1949. Those of you who are monetary economists, professional or amateur, perhaps feel that the inflation danger is still acutely with us. But many of you, I venture to say, are beginning to think that we have about reached the peak of our long inflationary rise. You think the boom is about over. You wonder whether a bust is around the corner, and even though you do not actually expect a bust that little fear gnaws at you from time to time. You know that all great wars have ended in inflation, and that all inflations have ended in deflation. Most businessmen of the present day have passed through both.

Alan H. Temple

The inflation in which we now find ourselves has lasted, if we fix its beginnings with the defense program of 1940, for more than eight years. It has brought commodity prices to a new peak, even higher than the previous peaks in 1920. The rise has been interrupted twice in the past two years but in each case the interruption proved temporary. Now we are in another period when the rise has flattened out. For about two months the overall price trend has been sideways.

The general reason why the price rise has flattened out is that through the passage of time, and with the blessing of huge industrial output and phenomenal crops we are catching up with requirements in more and more lines. There are natural limits to the consumption of specific products, since the demand is never infinitely elastic. After a time the pipelines fill up and supply-demand relationships change. Production has now caught up in cotton, wheat and corn, in fats and oils and in some other farm products. It has also caught up in certain soft goods such as shoes and cotton textiles, in semi-luxury products, in many services, and in a few consumers' durables. Even construction programs are running out in some industries. The fact that this catching up with accumulated shortages is proceeding from one line to another is one of the main reasons why it is appropriate to examine the business outlook today.

We know that a long inflationary movement creates internal weaknesses which in time cause its downfall. One is that continuous price advances price some buyers out of the markets. The effects of inflation are uneven. The incomes of many groups of the population keep up with the price rise and some, including those numerically most important, actually increase their purchasing power. The incomes of other groups lag behind and they lose purchasing power. The groups that are penalized include stock and bond holders. They include everyone whose income is relatively fixed such as pensioners. They undoubtedly include a great many white collar people. We have made calculations which show, for example, that a man with $60,000 invested in good bonds at current yields can buy with the proceeds of that investment, after paying his taxes, only 38% as much as he could have bought in 1930. This is the most extreme casualty of inflation, but of course there are others.

These distortions lead to a situation where people cannot buy each other's products. This is not only inequitable, it is depressing to business. Factory workers represent an immense segment of the buying power of this country, but factory workers cannot buy all the textiles, all the automobiles or support all the amusement and the semi-luxury trades. To maintain maximum production and sales, prices and incomes have to be in balanced and equitable relationships so that each group can buy the products of the others. Inflation disrupts these relationships.

Again, mistakes and miscalculations are made during booms. Inventories become too large or unbalanced. Over-expansion occurs in specific lines. People borrow too much, and it becomes harder to borrow or to raise capital. At some point corrections must follow. Many see evidence that, to some extent at least, dangers of this kind now exist.

Finally, investment expenditures tend to run in cycles. When the prospect is brilliant borrowers and lenders alike go ahead. When it changes they pull in together. They will occur again this time.

But to list these indications and these reasons for reaction does not provide the answers to the practical questions that are so vital to us, namely, the timing, pattern and extent of reaction. It is to this that my comments are chiefly addressed.

Businessmen find it very hard to think about 1919 without also thinking about 1920 and 1921. They can't think of 1928 and 1929 without also thinking of the early '30s. These memories strongly influence our interpretation of the present situation. Moreover, people who consult the statistical records of business know that prices have risen to high and temporary peaks during or shortly after every major war and that they have always dropped almost as sharply as they rose. We are influenced by these historical precedents as well as by our own personal knowledge and experience. We think the higher things go the harder they fall. So we are apt to think of reaction from this inflation as something sharp, violent and immensely costly, as in 1920.

Now we should not expect to avoid a period of correction. On the other hand, I don't think we can necessarily get the right answer to our questions about timing, pattern and extent by uncritically following historical precedents, even those which have fallen within our own experience. An easy reliance on precedent and teaching is no substitute for the hard work and hard thought of current analysis. Comparing the present with the past, such analysis shows no significant differences as well as the fundamental and obvious similarities. The similarities indicate reaction from this inflation. But the differences suggest that the reaction may differ in shape, pattern and extent from the historical precedents.

Most people think we are in a perilous situation because prices are too high. In a general way all must agree. But how much too high? "Too high" is not a very scientific term. What standards have we for judging whether prices are too high or not too high? How much of the rise has to be wiped out? How much will prove substantially enduring?

Are prices too high in relation to the supply of money? The country has three times as much money as before the war and people and business have $3\frac{1}{2}$ times the prewar total of liquid assets, readily convertible into money. Prices therefore have got to be higher than prewar. In 1939 we did $90 billion worth of business with about $34 billion of money, the money supply being 38% of our gross product. Currently we are doing $250 billion worth of business annually with $108 billion of money. The money is 43% of our gross business. Actually, therefore, we can say that by 1939 standards we could do even more business, or the same business at even higher prices, with our present money supply.

How much of our business expansion is froth and excess? We have some 15 million more people and at least 4 million more families than in 1939 and we have made great advances in industrial technology. My basic point is this: the benchmarks of 1939, 1929 or any other year are obsolete as measures of what is normal in prices or production. We have gone untenably high in some

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*An address by Mr. Temple before the Annual Meeting of the Controllers Institute of America, New York City, Oct. 13, 1948.

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The Five Percent Yardstick

Disputes the conclusion "5% spread yardstick" approved by majority of NASD members. Recalls proceedings instituted by Securities Dealers Committee. Poll conducted by "Chronicle" showed opposite result. This yardstick never submitted to membership for a vote. In view of present status of our economy, it is an anachronism and should be revoked.

In the current issue of "Finance" is an article bearing this title: "Five Percent Markup Continues to Rule Over-Counter Dealer."

We quote from that article:

"The 5% markup was established as a yardstick for the over-the-counter securities business by action of the Board of Governors of the National Association of Securities Dealers on Oct. 25, 1943. Since that time, the Governors, supported by a majority of Association members, have continued to uphold the 5% philosophy, despite periodic sniping by non-industry critics and a few, disgruntled dissenters in the business."

We believe the author to be in error on two grounds, that a majority of the NASD members support the 5% philosophy, and that the opponents are "few," "disgruntled" and "non-industry critics."

From the very outset when the NASD foisted the "5% yardstick" upon its members, we contended this "philosophy" was a rule and under NASD by-laws should be submitted to those members for adoption or rejection. This the Board of Governors refused to do. Here was a direct opportunity to determine whether the proposed action met with general approval. The evasion certainly is no proof of a belief that exercise of the franchise would have resulted in an adoption of the by-law. No chances were being taken that this yoke would fail of imposition.

We conducted our own poll on the issue and found opposition to the 5% yardstick wide spread. In our considered judgment any fair vote taken by the NASD would have resulted in conclusively defeating this yardstick.

Another evidence of wide spread opposition was the organization of a Securities Dealers Committee which instituted a proceeding before the Securities and Exchange Commission to compel the NASD to declare the "5% Yardstick" a rule and direct its submission to the NASD membership for approval.

Of course the SEC saw no error in the actions of its side kick. We have always strongly suspected that the "5% Yardstick" is a direct product of SEC activity. In our opinion the Commission did the briefing, gave the orders, and the NASD yielded suppliantly. At any rate, during the pendency of the above proceeding, when challenged by counsel to disclose any connection with the promulgation of the "5% Philosophy," the Commission was significantly silent.

Editorially we have dared the Commission to make such disclosure, to publish its office memoranda on this subject. They never will. In our judgment, they dare not for the resulting indignation might destroy them.

In all this there was never any need for inference, a simple vote under NASD by-law would have been a complete solution. Why wasn't it taken? Need we answer?

Isn't it fair to believe that these two policemen operating out of the same precinct, the SEC and the NASD, had an understanding? If they did not, why are they silent? Why don't they tell us what conferences they had on this matter? What took place at each of these and who participated? If

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Business-Today and Tomorrow

By EDWIN G. NOURSE*

Chairman, Counsel of Economic Advisers

After describing the Act setting up President's Economic Council as having objective of sustained high production under an integrated program rather than blind struggle of special interest groups, Dr. Nourse warns against accepting economic slogans, based on theoretical analogies such as "boom and bust." Says current conditions are better than after World War I and real test of our business system will not come until after 1949. Foresees no permanent price adjustment if heavy military budget is continued, but looks for statesmanship in all segments of our economy to foster a well sustained structure of activity and income.

I shall begin with a few "get-acquainted" remarks designed to give you as briefly as possible my interpretation of the character of the agency I represent and of the purposes for which it was established. This is done for the specific reason that the Employment Act of 1946 is an essential part of the background against which or atmosphere in which analysis of the business outlook must proceed. An understanding of the functions of the Council of Economic Advisers and of the Joint Committee of the Congress set up in that Act is necessary prefatory matter to what I shall say about the general economic process that will condition your operations in the future.

Edwin G. Nourse

I do not believe that the striking and unprecedented declaration of national economic policy which opens the Employment Act is mere verbiage which has been repudiated by changes in American thinking that have taken place within two short years. I believe that remarkable piece of legislation registered a definite step in the progress of our system of private enterprise under truly representative government. If so, the instrumentalities which it set up are themselves a vital part of the trends that will influence your business and your private fortunes over the years ahead.

The Declaration of Policy in Public Law 304 of the 79th Congress affirms that:

". . . it is the continuing policy and responsibility of the Federal Government . . . with the assistance and cooperation of industry, agriculture, labor, and state and local governments, to coordinate and utilize all its plans, functions, and resources, for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

The great objective of the Employment Act was to devise suitable business and governmental structures and procedures to the end that we might have better sustained use of natural resources, manpower, and capital in the satisfaction of the material wants of the nation. This did not mean merely smoothing out such highs and lows as have been encountered in the past and stabilizing their median level. It meant that we should mobilize our economic brains to fashion measures—preventive so far as possible, remedial when necessary—to combat the century-old disease of modern capitalism, the so-called business cycle. A healthy economy is a high-production economy.

As to the means to be used to this universally desired end, the Employment Act does not propose any trick device. It does not offer any patent medicine or resort to magic—black magic, or white magic, or golden magic. I speak advisedly when I say the Employment Act merely commits us to "mobilize our economic brains to fashion practical measures" for giving people who want to work an opportunity to do so all the time instead of part of the people part of the time. "Maximum employment and maximum production" demands that this employment shall be under conditions of high efficiency and, if we are really to keep the system humming on a voluntary basis, the relationship of the market—prices, wages, and profits—must be equitable in their broad outlines.

Problems in Framing Economic Policies

Time does not permit me to go into detail as to what I believe is involved in this attempt to bring the methods of scientific analysis and measurement to bear on the framing of national economic policies. The general approach, however, consists of two phases. First, a professional staff arm is provided in the Executive Office of the President, to serve him in preparing each year an integrated economic program to submit to the Congress and in subsequently revising or elaborating this program as occasion requires. To this end, there is set up a three-man Council of Economic Advisers together with a small but high-caliber staff of broadly trained economists. We utilize the fact-gathering resources of all branches of government and of private agencies, and we confer periodically with consultative committees representing management, labor, agriculture, consumers, and state and local government.

In addressing the American Economic Association in 1947, I described our role as follows:

"Some cynical people have alluded to the Council as 'the Three Wise Men of Economics,' standing at the President's elbow to give him smart answers to economic riddles or to tell him just what to do in every economic crisis or situation as it arises. Now I do not regard myself as 33⅓% of the Three Wise Men. As I understand the matter, we have (during our term of office, however long or short) been entrusted with the task of organizing an agency through which the Chief Executive of the United States may see the economic situation and problems of the nation in their entirety and through professional eyes. It is the responsibility of this agency to process for his consideration the materials which should be of most use to him in laying out his policy and following his course of action with reference to the national economy. . . . It is incumbent upon us to lead in the development of a technique for continuous examination of the entire economy as a functioning and dynamic whole."

The Council has no administrative authority or responsibilities. Our coming does not alter the Cabinet form of our existing frame of government. We have not been endowed with **power** in the executive branch of our government, but as the institution grows in experience, wisdom, and prestige, it should wield an important **influence** in coordinating the Cabinet departments and independent agencies in policies and procedures that promote the national welfare. Our analyses should challenge and deter partisan programs designed to promote the narrow or short-run advantage of particular interest groups at the expense of sustained national prosperity through balanced high production. One of the duties assigned to us in the statute is "to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 [the Declaration of Policy] for the purpose of determining the extent to which they are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto."

Joint Committee on the Economic Report

The second line of implementation of the Employment Act of 1946 is on the legislative side and takes the form of a Joint Committee on the Economic Report of the President. This committee

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*An address by Dr. Nourse at a meeting of the American Transit Association, Atlantic City, N. J., Sept. 27, 1948.

Earnings Versus Dividends As Guide to Stock Price

By ALEX. M. HAMBURG

Member New York Bar; Chairman, New School Symposium on Federal Taxation

Citing fall in proportion of earnings paid out in dividends, Mr. Hamburg points out benefit to stockholders from ploughing-back of undistributed profits. Declares not dividend policy, but underlying economic forces like inflation explain stock price movements. Concludes market's present disregard of historically high earnings is only temporary.

Recently the assertion has been expressed that "How much does the stock pay?" has replaced "How much does it earn?" as a guide to the value of an investment stock. Thus, one writer has pointed out that stock market prices have ignored, to a surprising extent, substantial increases in half-year earnings. Corporation earnings figures for the oil and steel stocks, when analyzed indicate that the value placed by the market on such stocks is not in line with the favorable trend of earnings. ("Barron's," Aug. 2, 1948, p. 26.)

Alex. M. Hamburg

Seeking an answer for the comparatively low price-earnings ratio now existing, it has been urged that huge sums must be used by corporations to keep their physical equipment abreast of demand; that such needs have prevented substantial increases in dividends. To illustrate this condition, what has happened in U. S. Steel is cited. In the 12 months ended June 30 last, it earned $125 million after sizable charges for depreciation and replacements. Although after the payment of dividends it had $109.6 millions left, nevertheless its cash or other liquid assets were reduced by $219 million.

To the extent that capital needs require retention of earnings, it has been argued those earnings have been overstated. If dividends rather than earnings constitute the dominant factor in determining stock market value, then a significant change has taken place in the long established relationship between earnings and dividends.

Conceding that dividends play a part and constitute one of the factors in the valuation of shares of stock, the present writer doubts whether it is the over-all decisive factor. His position is that earnings are the chief determinant of stock value. They reflect **normal** earning capacity and thus are an index of value, that is, of intrinsic, basic value as distinguished from shifting temporary market prices.

Proportion of Earnings Paid Out in Dividends

It is well to note the extent of the cash amounts of dividends—that is that portion of corporate earnings which have been periodically distributed on their shares. The figures for the year 1947 show total dividend payments (amounting to $6.8 billion) are historically high against the background of earnings. Over the period from 1920 to 1939, the proportion of cash dividends which were paid out of earnings of manufacturing companies was over 75%; the average was 60% for merchandising companies. However, in recent years under 50% of net income has been paid out as cash dividends.

Over a period of years prior to 1946, the ratio of dividends to net earnings was about two-thirds; that is, only one-third of net income was retained. This ratio has recently declined and less than one-half of available earnings are distributed in cash dividends, despite the tremendous increase in business volume and profits. In 1939, when corporate profits after taxes were $5 billion, cash dividend payments amounted to $3.79 billion. Compare this with the corresponding 1947 figures: profits $18.07 billion, dividends $6.88 billion. Corporate profits through the second quarter of 1948 are at the annual rate of $30.9 billion.

From the foregoing facts of a low dividend ratio, some have concluded that common stock prices will not favorably respond in the near future, and that dividend policy will be cautious rather than generous. The liquidity factor will, of course, be one of the controlling considerations.

There are various contemporary conditions which may make management cautious about dividend payments — inflationary and deflationary pressures, uncertainties making equity financing difficult, tax rates far beyond pre-war standards, a large slice of apparent profits reflecting merely the higher prices of replacing inventory, and the need for adequate depreciation allowances based on replacement cost of plant and equipment.

It is paradoxical, but nevertheless true, that stocks of conservative companies retaining a major portion of their earnings sell at relatively high market prices, in an intensely competitive securities market. It is essential to remember that the undistributed earnings are not lost, but are ploughed back to build up equity value. The steady income yield, as well as book net worth, are components properly included in the value equation. It is only human to assume that the current rate of dividends will continue permanently into the foreseeable future. This is obviously unrealistic. In our ever-fluctuating economic framework many factors impede continuity and regularity. The income tax is a good example. Distributions of liberal cash dividends to obtain tax credits or to prevent the imposition of surtax under Section 102 may create a false appearance of prosperity. This section provides a penalty tax for unreasonable accumulations of earned surplus, and is intended

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Observations . . . .

By A. WILFRED MAY

POST-ELECTION INVESTING PRINCIPLES

In anticipation of a presumed ordering of a change in our national Administration at the polls next month, last week's column was devoted to stock-taking of the investing community's status at the end of the New Deal era, and to estimating the nature and extent of post-election innovations as they may affect the investor. Our conclusion was that in lieu of pinning his hopes on major permanent relief from the existing trends in regulation, discriminatory taxation, and socialization which have been undermining his position in the community, the investor should be spurred to exerting the maximum effort in pursuing sound policies in the management of his capital.

A. Wilfred May

The basic principle we would recommend is one of *realism* in avoiding wishful thinking that inflation can be taken advantage of, and capital profitably employed, by forecasting "the market." Instead, the individual's broad portfolio policy, as well as every decision with regard to *specific* security transactions, must be justified on "hard-boiled" lines of justifiably expected return. Without quibbling about the definition of investment and speculation, and the difference between them (which is mainly constituted by subjective motivation and indefinite gradations), let us consider what should actually be the businesslike purpose of the owner of capital.

Basic Investment Aim

His basic aim is to buy his shares in a property at a price which will yield him sufficient regular income to give him (1) the riskless rental value of his capital plus (2) risk-premium sufficient to amortize the investment in correlation with the protection not afforded by the realizable assets, plus (3) especially in case of an equity, an increment for safety and ultimate profit. This basic test would apply to practically all forms of investment, real estate as well as securities.

In the case of bonds, the simplest decision is that surrounding government issues. Their yield being the riskless rental value of our money, and our principal being risklessly repayable in dollars at maturity (or before from the Savings Bonds), our only decision to make is whether we wish to rent our dollars out risklessly at the going rate; whether we believe that some other bonds or equities are available at prices which afford adequate compensation for the degree of risk respectively involved; or whether we prefer some other *kind* of investment.

When considering *corporate* bonds, we are really confronted with the question whether the additional income available from relatively low-grade issues will average out, over a reasonably long period, as large enough to compensate for actual losses likely to be incurred by reason of the greater risk. Can foreseeably the difference between the riskless annual rental value of 2½% and the return of say 5½% from BA grade bonds, over a 10-20 year period compensate for losses suffered in those cases where default in principal or interest occurs? Such reasoning follows our above-stated principles of soundly creating an insurance fund for losses through the storing-up of annual risk premium (even if only via mental bookkeeping).

Each Issue on Its Own Merits

Experience as well as various studies (such as that made last year at the School of Business Administration at the University of Oregon) shows that no hard-and-fast overall conclusions about the comparative attractiveness of the various grades of corporate bonds are justified. The investing public has a prejudice in favor of the low-coupon, lower-priced bond, and generally over-discounts its actual real advantages by relatively over-pricing it in the market (cf. "Basic Yields of Bonds 1926-47; Their Measurement and Pattern," by Durand Winn, National Bureau of Economic Research, December 1947). Hence, in the case of bonds, just as with all types of securities, we should not follow generalizations about whole categories, but appraise each individual issue on its own merits.

Such technique of scrutinizing each individual issue is particularly indispensable in common stock investment. If we concentrate on thus meeting the requirements of capital rental value plus risk premium, instead of on the traditionally vague unreasoned concepts of the price-earnings ratio, we can supplant the current haphazard guessing about the ratio's size with a logical and businesslike approach.

In recognizing the importance of concentrating on the *value* of the property he is buying or selling, the logical investor will forego the investment community's habitual behavior of betting-on-the-news, or rather from betting on the way other people will react to the anticipated news. Particularly under current conditions of extreme political and economic complexity, is it fruitless to conduct one's investment behavior as if in a game of musical chairs wherein some loser is unfortunately squeezed out at the end; or to try either to follow or outguess "the crowd" on coming styles of the market or of its individual stocks; or to psychoanalyze one's fellow-investors instead of analyzing the securities.

Exploitation of Public's Errors Constitutes Sound Investing Tool

This is not to minimize careful observance of the psychological attributes of the market community as an extremely valuable auxiliary tool. The emotional foibles of the crowd regarding the market in general, as exhibited in its manic over-enthusiasm at the top of bull markets and its converse extreme mental depression at the bottom of bear markets, are extremely helpful in indicating the proper climate of one's own conservatism.

Moreover one's detecting that either over- or under-valuation of the general market, of groups, or of individual securities, is the result of a misconception by the public, constitutes one of the most effective tools for supporting one's own investment decisions.

For example, one's findings that on value tests the general market is overpriced, are justifiably reinforced if it is learned that the buying is being done by a public excited over booming industry and without regard to values. Conversely, one's appraisal of the market's

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Industrial production for the country at large increased moderately last week and exceeded the output of the similar period of 1947. In keeping with the higher tempo of operations, industrial back-order volume for the week registered a small decline.

On the labor front, disturbances were not as numerous as in the preceding week, but the oil refinery and shipping strikes in the Pacific Coast region continued to hamper industrial activity in that area.

John L. Lewis, United Mine Workers President, again came into national prominence the past week after his encounter with the Federal Court last spring. At that time, both the United Mine Workers Union and its head were held in contempt for violation of a court injunction which the government obtained to prevent the miners from striking over what Lewis chose to call a dishonored pension agreement on the mine owners part.

The general pattern of the United Mine Workers' 1949 contract demands will be outlined this week at concluding sessions of the union's 40th biennial convention. To begin with, on Wednesday of last week, Lewis proposed to the convention that it approve a 100% increase in dues for the miners to strengthen their financial position for possible new economic struggles. He further stated that the union is seeking to have the age limit for retirement under the union's welfare fund reduced from 62 years to 60 years and that, with the peak of postwar coal demand apparently past, a reinstallation of the seven-hour day, 35-hour week is an economic necessity.

While the union does not contemplate a serious depression in coal in the near future, it is not overlooking the possibility; hence the emphasis on a return to the seven-hour day with, of course, no drop in the weekly take-home pay of the miners contemplated.

* * *

Total employment dropped in September for the second consecutive month, the Census Bureau reported. It slid off 933,000 to a total of 60,312,000, but according to the Bureau, the loss was not significant since it comprised in the main, students holding summer jobs.

Actually, more job holders were at work in September than in August, the Bureau reveals, placing the total civilian force at 57,676,000, or 1,074,000 more than in August. There were, in addition, 1,366,000 drawing pay from the armed forces.

* * *

Personal income continued its upward swing in August, reaching an annual rate of $215,100,000,000 from $212,900,000,000 in July.

This record high in personal income—or the amount individuals receive in wages, rents, dividends and interest—reflects the third round of wage increases, the Commerce Department said. A similar increase in personal income that occurred about the like month last year caused the upward trend at that time, the department added.

Expansion in employment was also given as a reason for the rise. Personal income for the first eight months of 1948 was at an annual rate of $209,700,000,000, compared to $190,700,000,000 during the similar period last year and a 1947 full-year total of $195,200,,000.

* * *

Stimulated by cooler weather, consumer buying in the week rose slightly above the level of a week ago and continued moderately above that of the corresponding period of last year. Consumer interest in fall and winter apparel increased noticeably. Meats and some canned products sold well in many localities. The retail volume of furniture and hardware was generally sustained at a high level.

Wholesale volume slightly exceeded that of the preceding week and of the comparable week a year ago. Re-orders of women's seasonal merchandise continued in large volume with new orders for holiday items showing a moderate increase. Trading volume in cotton and wool textiles remained at a low level.

STEEL OUTPUT SCHEDULED AT HIGHEST RATE SINCE MID-WAR PERIOD

Because the steel industry would rather have voluntary allocations than imposed government allocations, it will struggle along as best it can, states "The Iron Age," national metalworking weekly in its latest summary of the steel trade. The present law on voluntary allocations expires next February. Steel people have promised to take care of defense needs and maybe a few "must" programs after that time.

What steel officials are beginning to have to contend with is the ever increasing number of orders coming under a plan which was designed to take care of "essentials." So much has the plan mushroomed that output of some products is 25% to 35% allocated. Steel people are not in accord with the plan but if it is extended there is little they can do except go along under private protest.

The reason why the allocation program has outgrown its effectiveness is simple, the trade paper observes. As each new group was

(Continued on page 29)

Dr. Hahn Back in N. Y.

Dr. L. Albert Hahn, noted economist and author returned on Oct. 9 aboard the French Line's De Grasse from a four-months' visit to European capitals.

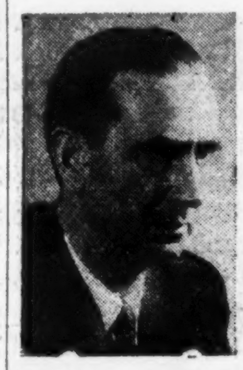


Photo: H. N. Rubien
Dr. L. Albert Hahn

Dr. Hahn, Chairman of one of the largest private banks in Germany prior to 1933 and a resident of the United States since 1940, is working on a new book called "The Economics of Illusion," a critical analysis of the monetary policies advocated by the late J. M. Keynes, famous English economist. The Squire Publishing Co. will publish Dr. Hahn's new book in Mid-January. It will be distributed by the New York Institute of Finance.

Harry B. Spring Joins Ungerleider & Co.

Ungerleider & Co., 41 Broadway, New York City, members of

Harry B. Spring

the New York Stock Exchange, announce that Harry B. Spring has become associated with them as manager of their investment department. Mr. Spring was formerly a partner in Greene & Co.

Problems in Federal Debt Management

By FALKNER C. BROACH*
Vice-President, National Bank of Tulsa, Tulsa, Okla.

Pointing out large bank holdings of government securities and resulting increase in bank deposits have become permanent features of banking, Midwestern bank executive sees only limited possibilities of shifting bank held debt to non-bank investors. Upholds Treasury support of government bonds as essential, and contends problem is fixing level of support that will serve economy best and prevent undue inflation or deflation. Contends short-term rates can be increased further only slightly without jeopardizing stability of long-term bonds. Hits insurance company bond selling.

I should like to discuss with you for a few moments some of the problems involved in managing our national debt of some $250 billion. That there are problems involved I think no one will deny. How these problems are solved will do much to mold the future of our economy in general, but in no single sphere of our economy is the solution of these problems likely to play a more important role in our commercial banking. We have seen one illustration of this already in the authority given the Federal Reserve Board at the last session of the Congress to raise member bank reserve requirements — an authority which the Board has exercised in part already. The suggestion also has been made that a national monetary commission be created to reappraise our whole system of reserve banking. We know also that the yield on governmental securities tends to set the whole pattern of rates throughout our economy. Thus I think it is obvious that the management of our national debt is to play an important role in our economy in general and in our system of commercial banking. It is along these lines that I should like to talk to you for a few moments.

Falkner C. Broach

At the outset I think we should recognize that measured by prewar standards our commercial banking system has undergone certain revolutionary changes directly attributable to the policies followed in financing World War II. I have reference to the enormous increase in deposits and bank holdings of government securities, neither of which is a temporary condition.

Bank Credit in War Financing

Although it was the announced policy of the Treasury to finance World War II with minimum reliance on bank credit, the Treasury did look to the banking system to underwrite the various war loan drives and to take the government securities not taken by nonbank investors. The role of the Federal Reserve Banks was to supply the commercial banking system with the necessary reserves to support the deposit increases resulting from bank purchases of government securities and to supply these reserves on such terms and in such amounts as to permit the financing of World War II within the framework of the 3/8%-2½% pattern of rates. The cooperation between the commercial banks, the Federal Reserve Banks and the Treasury was the highest. The necessary reserves were made available to the commercial banks by the Federal Reserve Banks, principally through open market purchases; the commercial banks served as underwriters of the various war loan drives by open market purchases and by direct subscription for those issues which they were permitted to purchase on original issue, thus adding substantially to their holdings of government securities and by so doing they created — or manufactured, so to speak — additional deposits and money equal in amount to their purchases of Government securities.

At the risk of being quite elementary, let me remind you of what happened in your own bank during the various war loan drives. When your customers bought bonds you charged their accounts and credited your War Loan Account; when your bank bought bonds you debited your investment account and credited your War Loan Account. In the first instance there was no change in deposits, just a transfer from one account to another; but when your bank bought bonds your deposits were increased—manufactured, so to speak, out of your own purchases. Of course the Treasury made periodic withdrawals from your War Loan Account, but did you lose deposits? No. Directly or indirectly you received enough government checks for deposit—from G. I.'s their dependents, war contractors, or defense workers—to offset your War Loan withdrawals. On balance you actually gained deposits—deposits which your bank, or some other bank, had created through the purchase of Government securities. All you needed were sufficient reserves at the Federal Reserve Bank to support the increased deposits and these reserves were made available to you by open market operations of the Federal Reserve Banks. Through its open market operations—i.e., through purchases of Government securities in the open market—the Federal Reserve Banks furnished the commercial banks the necessary reserves to support their increased deposits. With each $1 million purchase of securities by the Federal Reserve System member bank reserves were increased $1 million and with each $1 million increase in reserves the member banks were able to buy about $5 million of government securities and increase their deposits by a like amount. It was through this process, based on the availability of reserves, that the banking system was able to absorb all of the securities not purchased by other investors, and as a by-product of the process, to create or manufacture an equal amount of deposits.

The net of this process was an enormous increase in bank deposits and in both commercial bank and Federal Reserve Bank holdings of government securities. Between Dec. 31, 1941 and June 30, 1948, commercial bank demand deposits increased from $44 billion to $91 billion, time deposits from nearly $16 billion to nearly $36 billion and holdings of government securities from just under $29 billion to about $64¾ billion. The ability of the commercial banks to increase their investment in government securities by such an enormous amount and in the process create or manufacture such a large amount of additional deposits was made possible by an increase in Federal Reserve Bank credit, principally open market purchases of government securities, of about $20 billion.

Frozen Into Banking System

It is my contention that to a very considerable extent the enormous wartime increase in bank deposits and bank holdings of government securities are frozen into our commercial banking system and therefore into our economy. In fact, there are few ways by which either can be reduced. The deposits can be reduced only by a contraction of credit—i.e., by reducing loans and discounts, by shifting bank-held debt to non-bank investors or by Treasury retirement of bank-held debt out of Treasury cash surpluses. Although progress has been made in bringing bank-held debt down from a peak of nearly $98 billion at the end of 1945 and demand deposits from nearly $106 billion as of the same date to the present level of about $74 billion and $91 billion, respectively, I think we must recognize that the outlook for the future is considerably less encouraging. The decreases in deposits and bank-held debt since the 1945 year end were made possible primarily by use of the Treasury's enormous cash balances at the end of the war and Treasury cash surpluses of recent years to retire bank-held debt. The Treasury's working balance will permit of little further debt retirement and while I do not agree with Mr. Truman's forecast for the 1948/49 fiscal year, I think we must admit that the prospects for retirement of bank-held debt during this and subsequent fiscal years is limited.

This leaves for consideration the possibility of shifting bank-held debt to non-bank investors. Here again the possibilities are limited. In fact, the shifting of non-bank held debt back to the Federal Reserve Banks is one of the major problems confronting the monetary authorities today. It has been the selling by non-bank investors that has necessitated the Federal Reserve's support of the long-term market and indirectly, I think, the authority granted and subsequently exercised, in part, to increase member bank reserve requirements.

Based on a frank appraisal of the facts I think we must recognize that to a very considerable extent the increase in bank deposits and bank holdings of government securities are pretty well frozen into the banking system and into our economy in general. I do not mean to apply this statement to the individual bank but to the banking system as a whole. It follows, also, that as long as the Federal Reserve Banks stand ready to buy, and do buy, the government securities offered for sale for which there are no other buyers the possibilities for further deposit increases are almost unlimited and that in the creation of new deposits additional fuel is added to the inflationary fire. Mr. Parkinson, President of Equitable Life, and others have taken the Federal Reserve Board to task for their policy of support of the government securities market and **per se** there is no denying that in buying government securities in the open market the Reserve Banks are paving the way for a, roughly, five to one increase in bank credit and deposits. I plan to come back to Mr. Parkinson later, but let us first consider the justification or lack of justification of the support policies be-

(Continued on page 26)

*An address by Mr. Broach before the Kentucky Bankers Association Convention, Louisville, Ky., Oct. 5, 1948.

Broader Common Stock Ownership: Foe of Socialism and Communism

By J. ALLEN HARVEY
Partner, A. G. Edwards & Sons, St. Louis, Mo.,
Members of New York Stock Exchange

Mr. Harvey, commenting on growing scarcity of equity financing by corporations, proposes a remedy—a "fifth" freedom, the right of individual ownership—be added as foundation for other four freedoms and that a widespread propaganda movement be undertaken by commercial, financial and labor organizations to encourage individual investment in stocks of American business corporations.

After reading numerous speeches made recently before The Association of Stock Exchange Firms, The American Bankers' Association and other financial organizations, the theme song of which had to do with the growing scarcity of capital available for equity financing of our corporate form of industry, the feeling comes that this whole problem is being approached from the wrong angle. All of these suggestions are read by a great many people with a great deal of interest and with favorable reactions. Everyone knows that the stockholder's position would be improved should we eliminate the double tax on dividends and should we change the capital gains tax both as to rules governing the time element for long and short-term capital gains and the percentage amount of tax charged against these gains — everyone knows that there is an incessant attack from cheap political sources against the misnomer "Wall Street." Everyone knows that a national environment should be created wherein management, labor and agriculture can work in harmony for the common good. Everyone knows that investment banking and the investment brokerage business has been straitjacketed in its operations since the passage of the Securities Act in 1934. After studying this problem, the first question that comes to the fore is this:

Joshua Allen Harvey

What can be done about it and how?

When the powers brought to light the four freedoms, the most important one, the fifth, was not mentioned—the very foundation of the other four—the right of individual ownership. When a man owns something he usually is able to speak as he pleases; he usually worships as he pleases; he does not want, and this in itself frees him from fear. Other than private ownership of agricultural interest and homes (and these in many instances are assuming the body corporate) there exists today only one kind of an organization which furnishes to the individual the means of distribution and re-distribution of the wealth of our country — our corporations — the very backbone of our national economy. It is through their payrolls and widespread public ownership of their common stocks that a common ownership in our resources can be effected. Management and labor should own something in common, and what could be more simple than ownership of common stocks of our corporations?

But how to popularize the ownership of common stocks is the rub. So far it seems that the road chosen for the purpose of popularizing common stock ownership has been through an appeal to the members of the various associations engaged in the business of creating and distributing the equity capital of our corporations. Admittedly, the investment banker and broker are stymied by the many restrictions we hear about and we have become over-developed within our own shell in trying to solve them. An appeal should be made by influential persons to other organizations. Is there any reason why such organizations as the United States Chamber of Commerce, with all of the different Commerce Chambers throughout the country, the ABA, the NAM and the National Association of Insurance Companies (life, fire and casualty) should not have important committees whose express purpose is sponsoring ownership of common stocks? You may also include such organizations as the CIO and the A. F. of L. Its membership should be encouraged to own common stocks of corporations, especially of those by whom they are employed. The welfare of the membership of all of these organizations depends upon the successful continuance and operation of our corporate form of economy. It ceases to be if not financed from the bottom up through equity capital represented by preferred and common stock. There is where ownership begins. Continuous pressure shoud be placed upon these organizations to help sponsor a broadening of the base of ownership of our corporate capitalistic form of industry. Then you will cease to hear what seems to be eternal, the term "tools of Wall Street." The investment banking business and the investment brokerage business need help in popularizing the most common form and means of ownership of the resources of our country. Broaden this ownership and you will have a people's capitalism that will furnish equity financing for the resources of our country from the bottom up, creating a national force that would be able to whip any form of national Socialism or Communism, all of which are built from the top down.

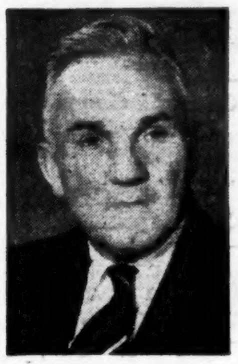
Bonds of French Republic Drawn for Redemption

J. P. Morgan & Co. Incorporated, as sinking fund administrators, today (Oct. 14) are notifying holders of the Government of the French Republic External Loan of 1924 25-year sinking fund 7% gold bonds due Dec. 1, 1949, issued under loan contract dated Nov. 22, 1924, that $3,981,100 principal amount of these bonds have been drawn by lot for redemption on Dec. 1, 1948 at 105%. The drawn bonds will be redeemed and paid on and after the redemption date, in United States dollars, at the office of the sinking fund administrators, 23 Wall Street, New York City, subject to the provisions of Executive Order No. 8389, as amended, upon presentation and surrender of the bonds and of all appurtenant coupons maturing after the redemption date. Interest will cease on the drawn bonds after Dec. 1, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

The manner in which the Republicans are bidding for the Southerners' votes as champions of States Rights is burning up the Trumanites and those Southern Democratic politicians who are trying to maintain their party regularity. States Rights have long had their strongest foundation in the South, of course. Down over the years they have been the theme of much old-fashioned oratory, flag waving and duels.



Carlisle Bargeron

But the Southerners never expected to hear their chorus taken up by the accents of the East and Middle West, or rather, almost to have the chorus taken over by these accents. Insofar as the rank and filers are concerned, they are tickled to death. The Democratic leaders sticking to party regularity and having almost as much trouble as they did in the Smith-Hoover campaign of 1928 are burned up.

Privately, they damn Truman for getting them into the mess they are in; publicly they heap scorn upon the Republicans as so many hypocrites. This is because the Republicans have generally supported anti-lynching legislation and because they have been bragging in an effort to get the Negro vote of the East and Middle West that they have enacted such racial legislation as the FEPC.

The Southern politicians have invariably opposed the anti-lynching legislation as well as the FEPC. Now, they find the tables being turned against them.

The fact is, of course, that no anti-lynching legislation has ever been passed; neither has any FEPC legislation except in three Eastern States, which under the States Rights philosophy is quite within the province of those States.

The fact is also that it has been under the New Deal-Democratic Administration that the racial consciousness has been developed to its present pitch and the agitation for racial legislation become so intense. And it is the further faet that the threat of this offensive legislation comes today not from the Republicans, regardless of how they may have voted in Congress or their leaders may have spoken in the past, but from the left-wing crowd that has captured the Democratic party.

It leaves the Southern party regulars in an awful fix.

It has looked, of course, as if the Republicans were going to try to out-bid the Left-wingers for the racial conscious vote. That is, they were going to try to do this in this campaign.

But it is becoming increasingly clear that the Republicans, insofar as the National ticket is concerned, are not going to do any such thing. Or rather, they are not going any further than they have already done.

The Dewey campaign literature points out that he had FEPC legislation passed for the State of New York. The worry of his Southern supporters, as well as those of the Middle West, has been that he would, under the pressure from racial groups, be forced to adopt this as a National policy in the present campaign. The indications are becoming increasingly clear that he has no such intentions.

As the matter stands, there can be no question of a distinction, for the Southerners, irrespective of what States Rights Presidential candidate Thurmond is saying, between Dewey and Truman. It is making the Southern party regulars squirm.

I would be the last one in the world to attribute high motives for this apparent situation. More likely it is due to the fact that the Republicans have given up any hope of "getting the Negro vote," as the expression goes, or the vote of any other racially conscious minority group. If they haven't given up hope, they should do so, because the indications are that it is going to Truman and Wallace in the order named.

If my analysis is correct, it is one of the most wholesome things that has happened in this country in a long time. To have both major political parties shaping their policy with a view to these minority groups and leaving the great inarticulate mass of just plain Americans out of their thinking is not only downright disgusting but downright dangerous. Already it has brought plenty of grief to the country and it would, if pursued, bring plenty more.

Business Man's Bookshelf

American Economy, The: Its Problems and Prospects—Sumner H. Schlichter—Alfred A. Knopf, Inc., 501 Madison Avenue, New York 22, N. Y.—cloth—$2.75.

Early Days of Oil—A Pictorial History of the Beginnings of the Industry in Pennsylvania—Paul H. Giddens—Princeton University Press, Princeton, N. J.—cloth, $6.

Individualism and Economic Order—Friedrich A. Hayek—University of Chicago Press, Chicago, Ill.—cloth—$5.

Influencing and Measuring Employee Attitudes—American Management Association, 330 West 42d Street, New York 18, N. Y.—paper—$1.

Local Planning and Zoning—Manual of powers and procedures for citizens and government officials—Bureau of Planning, Department of Commerce, Albany, N. Y.—paper.

New Patterns of Employee Relations — American Management Association, 330 West 42d Street, New York 18, N. Y.—paper—$1.

Problems and Experience Under the Labor-Management Relations Act—American Management Association, 330 West 42d Street, New York 18, N. Y.—paper—75c.

Year Book of Railroad Information—1948 edition—Eastern Railroad Presidents' Conference, 143 Liberty Street, New York 6, N. Y.—paper.

Wandering Scholar—M. J. Bonn—John Day Co., Inc., 62 West 45th Street, New York 19, N. Y.—cloth—$5.

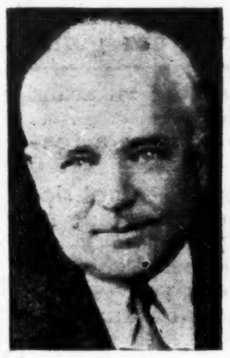
Remove Pegs on Government Bonds!

By THOMAS I. PARKINSON *

President, Equitable Life Assurance Society of U. S.

Mr. Parkinson asserts present "camouflaged use of the printing press" by government constitutes partial destruction of claims of holders of savings bonds, insurance policies, and social security benefits. States inflationary supply of money, rather than its use, is crucial. Criticizes superficial attitude shown in recent Congressional hearings on inflation. Pleads for Monetary Commission.

Without the usual formalities, your speaker will attempt, for a few moments, to direct your attention to a few problems that interest us all, I think, and that are of importance to the entire citizenry of the country. Perhaps, under the circumstances, it is not inappropriate for your speaker to call attention to his previous appearances before this Chamber in the capacity of speaker.



T. I. Parkinson

In 1935, it was my honor and privilege to say to this Chamber what I had previously said to an important public officer, namely, that if the spending by government continued in this country to be without regard to where the money was to come from, we would reach the point where there would be no practical solution for our problems except confiscatory taxation, repudiation, or that false and fraudulent—and I am using the same language I have used from this rostrum in 1935 — combination of confiscatory taxation and repudiation, which is known by the poetic name of inflation.

We have had confiscatory taxation. I don't mean the high income taxes; I don't mean the high corporate taxes, or the excess profits taxes. I mean the hidden tax, and it affects all the people of this country, and all of the businessmen of this country—it is in the form of increased cost of living and of doing business.

The housewives need more money and so does the management of very business, big or little, in the country.

Even my banking friends feel the increased cost of operation and the problem of keeping up with it.

We have had the repudiation. Unless we get hold of ourselves we will have a lot more.

We have had it in the hidden form of depreciation of the value for practical purposes of the proceeds of all obligations payable in dollars. We have had it particularly in the depreciation of the proceeds of the Government's own obligations. Even E Bonds bought a few years ago, if redeemed today, though redeemed at par, will buy about half of their purchasing power at the time the bonds were bought.

In our own business of security, of course, the proceeds of our life insurance policies will also buy less than they were expected to buy when the policies were bought.

But in that same field of security, the Social Security benefits, reasonable, to say the least, when they were established, now totally insufficient, have decreased in value in the same proportion.

It is, in effect, a fact today that either the contribution of the employer to the Social Security Fund, or the contribution of the employee to that Fund has been thrown away and wasted, because the two dollars which they, in combination, have contributed will buy only one dollar's worth of security today.

We, at least, in the life insurance business, are not responsible for the depreciation in the purchasing value of the proceeds of our policies. But I am sorry to say that those who are responsible for the creation and the administration of the Social Security Fund are responsible for the policies which have destroyed one-half of its original value.

We have inflation. It is because we have inflation that these hidden taxes and high cost of living, and this hidden repudiation and reduction of the real value of securities payable in money exist. That inflation, I think we now all admit, has proceeded to an important point and threatens to advance still farther.

Now, by inflation, I mean the great increase in the supply of money. There has been a good deal of talk about inflation which was not related to inflation at all, but rather to the inflationary use of an inflated money supply. The folks have been urged—I almost said bedeviled—into taking care that they didn't use the extra money which they have in their pockets for inflationary purposes. They have been urged to save. They have been urged to buy E Bonds. They have been urged to do various things which will not result in inflation, but, at the same time, the inflation of the money supply has continued to pour additional money into their pockets to void inflation by avoiding inflationary use of the inflated money.

The President of the American Bankers Association last year said that what we were doing was pouring inflammable oil on a fire that threatened conflagration.

May I add that the present situation, in terms of fire—and inflation is like a fire—is like a situation in which the Forest Rangers call out the villagers to prevent the destruction of a village in the path of a great fire by urging the villagers with pitchforks and broomsticks and the soles of their shoes to put out the fire, while they, the responsible public representatives, go off and add fuel at the spots where the fire seems to be dying out.

Again, in 1946, it was my privilege to address this Chamber, and it is my privilege and an honor to address this Chamber on any occasion. I know of no place where I would rather talk to a group of my fellow citizens than in this Great Hall.

In that occasion, the title under which I spoke indicated the general trend of my remarks. That title was "Too Much Money." And, generally speaking, as befits a speaker in this Great Hall, I urged the members of this Chamber, and particularly those of them who are responsible for banking operations in this community, to try to get control of the processes and policies which were contributing to the inflation of our money supply.

And I concluded, as a good speaker ought to, with a plea for some action, and the suggestion was that we needed a monetary commission, or some such body, to study this whole subject of money and credit, and to devise a Federal Reserve System suited to present conditions.

I think we all agree now that inflation has provided too much money. We have too much money. As individuals, we all like to have more money. It feels good in the pocket, and it is nice to feel there is something left in the bank balance, but that feeling exists only as long as the other fellow doesn't catch up with you.

When costs go up faster than your rising income, then you will begin to realize that more money of less purchasing value is of no benefit to you, and that is what is going to happen even to the farmers, and the organized labor men of this country. The pleasure that they have at the moment of increased amounts of money to spend will only last so long as that increase keeps ahead of the costs which the other fellow imposes on them.

That is the history of an inflated money supply, and it will be true here as it has been everywhere else.

I am sorry that I cannot report

(Continued on page 22)

*An address by Mr. Parkinson at monthly meeting of Chamber of Commerce of the State of New York, New York City, Oct. 7, 1948.

A New Philosophy of Security Selling

By VICTOR COOK*
Partner, Merrill Lynch, Pierce, Fenner & Beane,
Members of New York Stock Exchange

Mr. Cook, stressing customers' broker performs important function in capitalistic system, points out he not only sells securities but also ideas and his own personality. Outlines work of customers' broker, whom he calls "account executive," as financial counsellor and service man. Warns need for sincerity, alertness and wide knowledge in informing and advising clientele. Holds chief responsibility and allegiance is to customer, whose position and standing should be carefully grouped and studied individually. Lists ten overall principles for customers' broker's success.

It gives me great pleasure to be here today and talk to you about "A New Philosophy of Security Selling." Possibly you will doubt the philosophy, question the newness, and have misgivings as to whether only selling is involved. Primarily, however, I am going to talk about the overall aspects of the work of the account executive, the title applied in my firm to members of our sales staff. The subject has always appealed to me and, looking back over a period of many years, it seems I have been closer to that toiler in the Street than to any other. I have witnessed the metamorphasis of his title from that of lowly and unlamented customers' man to its present, more impressive form and I have observed him at work in many parts of this country and abroad where his operations are described as those of half commission man, remissier, or just plain, ordinary broker.

Victor B. Cook

Regardless of his locale and the title by which he is known, there are certain standard, basic traits, patterns and methods common to all who are successful, and the degree of success is dependent largely upon his willingness to recognize at all times the importance of such guides. I am conscious of the fact that the group I address consists of men with various degrees of experience and all have been successful to date. Notwithstanding, I shall offer no advice not suitable in my opinion for anyone in our business—young or old. Many older, experienced men have faltered because they overlooked the importance of fundamentals which young men have recognized and utilized to accelerate their progress.

At the start of a discussion such as this, the obvious first question is "What is an Account Executive?" Many people are satisfied to answer by saying: "He is a salesman and sells securities," and call it a day. For a long time he was referred to in far less flattering terms but fortunately that is now a thing of the past. Such brusque treatment is, in my opinion, quite unfair and constitutes almost a libel on a large, important body of individuals who contribute much to the orderly functioning of the capitalistic system which all of us seem so anxious to preserve in these trying times. Furthermore, to the extent that he is a salesman, he sells not only tangible securities but ideas and his own personality. I doubt the necessity for describing what is meant by selling securities any more than it would be necessary to explain that an automobile salesman sells automobiles. Some time, however, can be devoted profitably to the importance of the other two ingredients, namely: the sale of ideas and the sale of one's own personality.

Important Idea Selling

Assume, for example, that Mr. Jones, an account executive, is calling on a client, perplexed in mind as to the relative merits of a number of securities but possessed of a strong conviction that certain factors indicate that a particular industry is likely to have much better than average prosperity. Jones will press the idea with vigor and should he be successful in conveying his enthusiasm and convictions to the customer, the selection of individual securities becomes almost routine.

Good examples of important idea selling are reorganization railroad securities at various times in recent years, aviation shares in the troublesome days just prior to war, automobile securities in the early twenties, commodity futures since shortly after Pearl Harbor, and right now the field of electronics provides wide scope for the imagination of those who believe they see the full possibilities of television opening up. As a matter of fact, account executives exploiting the idea angle of sales technique have already developed a good deal of business in securities like Radio Corporation of America, presumably destined to profit by television's success.

Obviously, there is no intention to imply that all general ideas mature as expected, because frequently they do not. I simply wish to stress the point that many an account executive is highly successful because, first: he is able to develop sound ideas, and second, he is able to sell them.

The third selling ingredient which I have mentioned, namely, the account executive's own personality, calls for some comment. Used generally, a good definition of personality is: "The quality of being a person." Used specifically, it becomes: "Distinctive or notable personal character." When an account executive exposes himself to a client or prospective client, it should always be with the thought in mind of eventually, if not immediately, ceasing to be merely a person to that client but rather one of distinctive personal character. To accomplish this, he must strive at all times to impress his client with his sincerity, honesty, cooperativeness, intelligence, willingness to work, etc. Many have possessed all the mental equipment to insure success but have fallen by the wayside simply because they never succeeded in overcoming personality shortcomings that marred their technical virtues. Later on in this talk I hope to elaborate on the theme.

A Financial Counsellor

Having discussed the account executive as a salesman, we now look at him in another capacity, namely, that of financial counsellor. As a salesman, you have cornered and roped the prospect who, although quite willing to submit to the routine of becoming a customer and opening an account, unfortunately doesn't know much about any security. Accordingly, he asks you, quite properly, just what he should do with his $10,000 and you then begin to appreciate that you have become something quite different from a salesman. As a matter of fact, you are now a financial counsellor and with respect to the particular client are likely to remain in the situation indefinitely, provided—

(a) that you do at least a reasonable good job, and,

(b) that the client does not decide at some future date that he knows more than you.

The latter will happen frequently and when it does you simply revert to your original status and pit your skill as a salesman against his now sophisticated resistance to your individual suggestions. In your role as a financial counsellor, you will be expected to assist and advise in many matters not always directly related to the handling of a buying or selling order. Your client may want your ideas about setting up a will or creating a trust, what proportion of his assets should be in various investment categories; whether he should buy real estate or put a mortgage on his old homestead; is Robert R. Young a menace or blessing to American railroads; and what to do about his Nickel Plate. Frankly, there is no describable limit to the scope of inquiries that will be made, but as you move along you will learn to enjoy them and each new experience will fortify you for the next encounter.

A Service Man

A well seasoned account executive must become proficient in another highly important department, namely: that of service man. Assume, for example, that the mythical client just discussed who had $10,000 and no knowledge of securities, was instead an important trader whose account was carried with another firm. In all probability, he would tell you that he had his own ideas and opinions about the market and stocks, that he did not care particularly what you or anyone else thought and that his only requirement was service. Upon questioning you would learn that by service he meant posting him throughout the day on what the market was doing, reading all news of importance, advising him of rumors, gossip, obtaining quotations, etc., etc.

Undoubtedly you would learn that he was quite well satisfied with his present broker but nevertheless would give you a chance to demonstrate your value. In this instance, you have overcome the hurdle of salesmanship, skipped the barrier of financial counsellor, but are smack up against the highly technical requirements of a service man. In my opinion, no division of an account executive's duties places him so constantly on the spot where his shortcomings can be detected quickly as that of service man. The reason of course is that speculative trading accounts are highly sought after, competition is keen, and if you fail to observe market phenomena and post your client promptly, the chances are great that some one else will.

Commodities, for example, may break sharply and even though your trader is long only in stocks, he will wish to have the news because of possible sympathetic response in the stock department. A dividend cut is announced which must be reported promptly to one who might want to get out before

(Continued on page 30)

*A talk by Mr. Cook before the Investment Association of New York, New York City, Sept. 29, 1948.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Equipment Trust Certificates—Booklet—Harris, Hall & Co., 111 West Monroe Street, Chicago 3, Ill.

Equipment Trust Financing—Pamphlet discussing such financing from the investor's viewpoint—McMaster Hutchinson & Co., 105 South La Salle Street, Chicago 3, Ill.

Mutual Funds and the New American Capitalism—Brochure—Watling, Lerchen & Co., 40 Wall Street, New York 5, N. Y., and Ford Bldg., Detroit 26, Mich.

New York City Banks Stocks—Third quarter analysis and comparison of 19 New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Population of California 1940 and 1948 — Brochure — Heller, Bruce & Co., Mills Tower, San Francisco 4, Calif.

Television—Analysis of opportunities — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Trucking Industry—Analysis of outlook with special discussion of **Associated Transport, Inc.**, and **U. S. Trucklines, Inc. of Delaware**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a discussion of current developments in **Railroads.**

Utility Holding Companies—Brochure—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

* * *

Aerovox Corp.—Circular—John B. Dunbar & Co., 634 South Spring Street, Los Angeles 14, Calif.

American Gas and Electric Co.—Summary and opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Arkansas Western Gas Company—Detailed information for dealers—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Bank of America, N. T. & S. A.—Circular—First California Company, 300 Montgomery Street, San Francisco 20, Calif.

Bethlehem Steel Corp. — Circular—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Black, Sivalls & Bryson, Inc.—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Central Foundry — Analysis — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is an analysis of **Illinois Central Refunding Mortgage Bonds** and leaflets on **Standard of Indiana** and **Corn Products Refining.**

Chicago Transit Authority — Circular—White, Weld & Co., 40 Wall Street, New York 5, N. Y.

Consolidated Rendering Co.—Report — Schirmer, Atherton & Co., 50 Congress Street, Boston 3, Mass.

Coral Gables Tax Participation Certificates — Memorandum — Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Diebold, Inc.—Memorandum—Clement, Curtis & Co., 141 West Jackson Boulevard, Chicago 4, Ill.

Also available is data on **Skilsaw, Inc.**

Doehler-Jarvis Corp.—Analysis—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Gauley Mountain Coal Co.—High yield—Data on request—George Birkins Co., 40 Exchange Place New York 5, N. Y.

General Foods Corp.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Lehigh Valley General Consolidated Mortgage Bonds—Discussion—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of current **Railroad Developments.**

Lehman Corp. — Analysis of changes in portfolio—Ira Haupt & Co., 111 Broadway, New York 6.

Michigan Steel Tube Products Co.—Analysis—Herrman & Samuels, 120 Broadway, New York 5.

Mississippi Valley Barge Line Co. — Analysis — Taussig, Day & Co., Inc., 316 N. Eighth Street, St. Louis 1, Mo.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Republic Aviation Corp.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

St. Lawrence Paper Mills—Circular—Stern & Co., 25 Broad Street, New York 4, N. Y.

Seattle Department of Lighting—Detailed report and also chart showing estimated annual revenues and bond service charges—Pacific Northwest Co., Exchange Bldg., Seattle 14, Wash.

Television Fund, Inc. — New brochure—Television Shares Management Co., 135 South La Salle Street, Chicago 3, Ill.

Texas Eastern Transmission Corp. — Circular — Rauscher, Pierce & Co., Mercantile Bank Bldg., Dallas 1, Tex.

Transgulf Corp.—Data—L. D. Sherman & Co., 30 Pine Street, New York 5, N. Y.

Warner Co.—Analysis—H. M. Byllesby & Co., Inc., Stock Exchange Bldg., Philadelphia 2, Pa.

Willys - Overland — Analysis — J. R. Williston & Co., 115 Broadway, New York 6. N. Y.

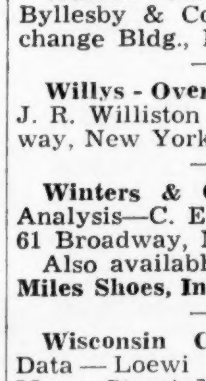
Winters & Crampton Corp. — Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Also available is an analysis of **Miles Shoes, Inc.**

Wisconsin Central Airlines — Data — Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Happy Birthday!

"Happy Birthday," Oct. 16 to Max E. Pollock, executive Vice-President of William E. Pollock & Co. Inc., 20 Pine Street, New York City, dealers in U. S. Government, territorial and Federal Land Bank Securities and underwriters and dealers in state, municipal, housing authority and corporate securities.



Max Pollock

A New Plan for Distributing Stock

The First Boston Corporation inaugurates scheme for standby offering of Columbia Gas System shares without underwriting.

On Oct. 7, The Columbia Gas System, Inc., offered to its stockholders of record Oct. 5, 1948, the right to subscribe at $10 per share, for 1,223,000 shares of common stock of the company. The offering was not underwritten along the same lines as formerly had been the custom in such cases by one or a group of investment banking houses, but The First Boston Corporation was engaged by the company to organize security dealers to obtain subscriptions for shares of the new stock. According to the plan any member of the National Association of Securities Dealers, Inc. may obtain a prospectus and a copy of the participating dealers agreement containing full information with respect to the offering, and the compensation payable for obtaining subscriptions, from The First Boston Corporation. The participating dealers make no underwriting commitment so the plan permits any dealer to participate in the transaction without incurring the risks peculiar to stand-by underwriting.

Under the plan, dealer distribution mechanism is employed and can be used in two ways to effect placement of the stock during a period which will extend from Oct. 5 to Oct. 28. Should a dealer be instrumental in getting a stockholder to invest in the new issue by exercising his subscription warrant, the dealer is compensated at the rate of 25 cents per share, which is higher than the commission commonly obtained in the execution of a stock order. Another way a dealer can earn compensation is by selling the new stock to investors other than company stockholders. To do this however, he must make a short sale and cover it by buying subscription rights and exercising them. The subscription rights in the Columbia Gas transaction provide means for registering the names of dealers instrumental in causing rights to be exercised. In such cases, however, the SEC has ruled that a dealer wishing to sell the new stock to investors may not buy the corresponding rights in the market until he has first sold the stock short. The purpose of this is to prevent any sudden price inflation in the rights that might result from the simultaneous purchases by dealers in advance of stock disposal to investors.

In connection with the offering, and to assist dealers in aiding distribution of the stock, there has been designed a light-weight, pocket-size prospectus for the use of salesmen and investors containing essential information and eliminating the unwieldy and long-winded prospectuses commonly employed in stock on bond offerings. The advantage claimed by the plan is that it permits any dealer to participate in the stock distribution without incurring the risks of stand-by underwriting. These risks have caused underwriters in the past to reduce their stand-by commitments, selling the underwritten stock during the life of the underwriting agreement instead of after its expiration.

Whether the plan can be universally adopted in all stock underwritings, of course, will depend on market conditions and the price of the new shares in relation to price of outstanding stock. If there is no or little advantage to stockholders in subscribing to the new stock, the issuing company, in order to be assured of the new capital from the offering of the shares, will undoubtedly desire a firm underwriting agreement.

Seifert With C. E. Abbett

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — Philip M. Seifert has joined the staff of C. E. Abbett & Co., 3277 Wilshire Boulevard. He was previously with the William Walters Securities Company.

With Bingham, Walter Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Sanford I. Drucker is now with Bingham, Walter & Hurry, 621 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with Stephenson, Leydecker & Co.

Paine, Webber Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL. — R. Jane McAfee has been added to the staff of Paine, Webber, Jackson & Curtis, 364 North Camden Drive.

General Practitioners in Liberty

By LEONARD E. READ*

President, The Foundation for Economic Education, Inc.

Asserting socialism begets socialism and corrupts reason and morality, Mr. Read points out move for socialized medicine is integral part of socialistic thought pattern and is one of many symptoms of the disease. Holds socialism seeks to satisfy wants by political and not economic efforts, and would destroy individual initiative, invention and enterprise, along with energizing forces of millions of individuals in pursuit of their self interest. Says nation is shot through with special privileges.

Citizens who chose to invest the fruits of their labor in homes and apartments, instead of in farms or corporation stock, do not like rent control. They ask, quite rightly, why should their investments be picked out, why should their property be expropriated, as a special privilege to renters. To combat this discrimination, they associate themselves together in movements against rent control.

Leonard E. Read

Stockholders and managements of private utilities see no reasons for government taking over their businesses. Such confiscation is as invalid as the socialization of the milk or the baking industries. Thus they organize against public ownership of the electrical industry.

Private home builders in America have built more cubic feet of homes per capita than have ever existed elsewhere on the face of the earth. They rebel at the idea of having no choice except quitting their endeavors or becoming morsel-chasers of such contracts as a bureaucracy sees fit to dole out. Thus private homebuilders oppose public housing.

Likewise, most citizens who choose any one of the many branches of medicine as their profession insist on freedom of action. This is particularly true of the competent ones. They prefer to be responsible for their work, and they believe it best that they direct their own work. They resent the idea of becoming automatons of a political power, not merely because this is personally distasteful, but because all the evidence points to the practice as degrading to the science of medicine. As a result, most physicians and surgeons fight socialized medicine.

Here we have it. Each group opposing the goring of its own ox! Little if any thought is given to the crime of goring. It is an though a patient came to you with a dozen irritatingly located boils. I doubt that you would render service to each boil. Instead, you would attempt to diagnose the systemic trouble. You would try to find the cause, and deal with it rather than the manifestations.

Combating Socialism

Now, be it understood that I am here, not as a consultant in a medical sense but as a consultant in a socialized medicine sense. My observations suggest that you, as well as the other groups, have been dealing with symptoms, not the disease; with effects, and not the cause. This group, as well as each of various other groups, has been crying out against rent control, or public ownership, or public housing, or socialized medicine, or a host of other governmental invasions into the realm of enterprise and private property. But nearly all have bee[n] neglecting the more fundament[al] cause: **socialism.**

It is well to inquire, how a[re] you and the others getting on wit[h] this particularized tactic?

As nearly as I can tell from [a] review of opinion polls, there i[s] no recent increase in nation[al] sentiment for socialized medicin[e]. If the right questions are aske[d] there actually appears to be a decrease in this sentiment. How ever, it is well not to be lulle[d] into a false sense of security b[y] such findings. The striking an[d] dangerous fact is that of the one half of the adult population hav[-] ing opinions for or against social ized medicine, 28% of these a[re] for it. If the unthinking can b[e] depended upon to conclude n[o] worse than those having opinion[s] then about 14,000,000 of ne[xt] month's voters can be earmarke[d] as in favor of socialized medicin[e]. Minorities, not majorities, p[ut] over things of this sort. Don't fo[r]get that only 1½% of Russia[ns] were communists when that gan[g] of violent revolutionaries seize[d] their government 31 years ag[o] this October. And here at hom[e] I doubt that a single one of th[e] plunderbund items legislated dur ing these recent socialistic year[s] those items that parade under th[e] euphonious name of "socia[l] gains," could have obtained any where near majority approval before they were enacted "for" the

(Continued on page 24)

*An address by Mr. Read before the Annual Meeting of the American Physicians and Surgeons Association, Akron, Ohio, Oct. 1, 1948.

Illinois Brevities

A group of underwriters, headed by Halsey, Stuart & Co. Inc., and including, among others, the following Illinois bankers, Mullaney, Wells & Co.; F. S. Yantis & Co., Inc.; Detmer & Co.; Farwell, Chapman & Co.; Ketcham & Nongard; Alfred O'Gara & Co.; Mason, Moran & Co.; Patterson, Copeland & Kendall, Inc.; Welsh, Davis & Co., and Robert Showers, publicly offered on Sept. 22 an issue of $75,000,000 Pacific Telephone & Telegraph Co. 35-year 3⅛% debentures, due Sept. 15, 1983, at 100.53% and interest.

* * *

Another nationwide underwriting group headed by Halsey, Stuart & Co. Inc. on Oct. 6 made a public offering of $75,000,000 Pacific Gas & Electric Co. first and refunding mortgage 3⅛% bonds, series R, due June 1, 1982, at 100.517% and interest. The net proceeds will be used to retire $12,000,000 bank loans, and to finance, in part, the utility company's construction program. Other Chicago investment houses participating in this offering are: A. C. Allyn & Co., Inc.; Mullaney, Wells & Co.; Detmer & Co.; Martin, Burns & Corbett, Inc.; Sills, Minton & Co., Inc.; Mason, Moran & Co.; Alfred O'Gara & Co.; Patterson, Copeland & Kendall, Inc.; Ketcham & Nongard, and McMaster, Hutchinson & Co.

* * *

The shareholders of Keystone Steel & Wire Co., Peoria, on Sept. 24 approved an increase in the company's outstanding capital stock from 625,000 shares to 1,875,000 shares for the purpose of issuing to stockholders two additional shares for each share held as of record Oct. 1. The new shares will be issued Oct. 15. E. J. Sommer was elected a director for a term of three years to succeed R. J. Kavanagh, whose term expired.

* * *

Public offering of 2,500,000 shares of Television Fund, Inc. (Chicago) common stock was made Sept. 8 through securities dealers, according to Television Shares Management Co., Chicago, the principal underwriter, at a price normally equal to the net asset value plus 8.25% of the selling price, or approximately 8.99% of the net asset value. The price of the shares is determined twice daily based on the market value of the securities held in the Fund's portfolio. The net proceeds are to be invested primarily in securities of enterprises engaged in television and allied fields.

* * *

An issue of $2,250,000 Illinois Commercial Telephone Co. first mortgage bonds, 3¼% series due July 1, 1978, was placed privately through Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp., it was announced on Oct. 5.

* * *

Included in the nationwide group of 134 underwriters which publicly offered on Sept. 30 an issue of $60,000,000 3% debentures due Oct. 1, 1973, and 260,000 shares of $100 par value 4.50% series preferred stock of R. J. Reynolds Tobacco Co. were the following Chicago bankers: A. C. Allyn & Co., Inc.; Central Republic Co. (Inc.); Harris, Hall & Co. (Inc.); Bacon, Whipple & Co.; William Blair & Co.; The Illinois Co.; Kebbon, McCormick & Co.; Sills, Minton & Co., Inc.; Farwell, Chapman & Co.; Julien Collins & Co., and Ames, Emerich & Co., Inc. The net proceeds are to be applied to the reduction of the aggregate amount of the tobacco company's short-term notes outstanding. Both issues of securities were offered at their principal amount, plus interest or dividends accrued as the case may be.

Black Sivalls & Bryson, Inc., has placed privately at par through F. S. Yantis & Co., Inc., $3,000,000 of 3½% promissory notes due Aug. 1, 1968, with a group of insurance companies, the net proceeds being used in part to retire $2,175,000 bank debt, the remainder being added to working capital.

* * *

Of the 472,954 shares of no par value common stock of Illinois Power Co. reserved as of Aug. 14, 1948, for issuance upon conversions of 5% cumulative convertible preferred stock, 316,058 shares were issued upon such conversions prior to the redemption date, Sept. 17, 1948. The remaining 156,896 shares were publicly offered at $26.50 per share through a group of underwriters which included the following Chicago bankers: A. G. Becker & Co. Inc.; Central Republic Co. (Inc.); Harris, Hall & Co. (Inc.); Bacon, Whipple & Co.; William Blair & Co.; H. M. Byllesby & Co. (Inc.); Farwell, Chapman & Co. and The Illinois Co. The net proceeds will be used to reimburse the treasury for funds used in the redemption of the preferred stock.

* * *

An issue of $1,250,000 Illinois Cities Water Co. first mortgage sinking fund bonds, series A, 3¾%, due May 1, 1973, was placed privately through J. G. White & Co., Inc., New York, N. Y.

* * *

Of the 128,230 shares of common stock offered to the common stockholders of National Tea Co., Chicago, at $20.50 per share, 119,217 were subscribed for on the exercise of warrants. Rights to subscribe expired on Sept. 15. The balance, amounting to 9,013 shares, were offered and sold to the public at $22.50 per share through Hemphill, Noyes & Co. and Merrill Lynch, Pierce, Fenner & Beane, both of New York City.

* * *

The stockholders of Peabody Coal Co., Chicago, on Oct. 5 increased the number of authorized common shares from 2,500,000 to 4,000,000, and authorized the raising of additional capital for the company, not to exceed $10,000,000, for the completion of the construction program when market conditions are suitable.

* * *

An issue of $3,240,000 Illinois Central RR. 2⅛% equipment trust certificates, series Y, due $180,000 semi-annually from Feb. 1, 1949, to Aug. 1, 1957, both inclusive, was publicly offered on Oct. 5 at prices to yield from 1.50% to 2.45% according to maturity. The issue had been awarded on Oct. 4 to Harriman Ripley & Co. Inc., and Lehman Brothers, both of New York City, on a bid of 99.092, a net interest cost of 2.34%.

The stockholders of Thor Corp., Chicago, on Oct. 18 will consider approving a proposal to purchase and retire 88,723 shares of the company's common stock from the state of Edward N. Hurley, its late Chairman, and allied interests, at a cost of $1,497,201, or $16.87½ per share. To finance the purchase, the corporation plans to borrow $1,000,000 at an annual interest rate not exceeding 3.75%, with the balance of $497,201 to come from its own treasury.

* * *

A banking syndicate headed by Stone & Webster Securities Corp. and White, Weld & Co., both of New York, N. Y., and including, among others, Central Republic Co. (Inc.); Harris, Hall & Co. (Inc.); Bacon, Whipple & Co.; Kebbon, McCormick & Co., and Mullaney, Wells & Co., on Sept. 28 publicly offered an issue of 400,000 shares of Tennessee Gas Transmission Co. common stock (par $5 per share) at $30.25 per share. The net proceeds will be used from time to time, along with other cash resources of the company, for the expansion of its pipe line system.

* * *

A. E. Staley Mfg. Co., Decatur has completed a large new pilot plant for testing manufacturing methods and proposed changes in plant layouts. E. K. Scheiter, Executive Vice-President, said that "the new plant is expected to be of great value in our continuous search for new products."

* * *

A group of investment houses headed by Central Republic Co. (Inc.), and including, among others, A. C. Allyn & Co., Inc.; Lee, Higginson Corp.; Straus & Blosser; Sills, Minton & Co., Inc., and Holley, Dayton & Gernon, of Chicago, on Sept. 16 publicly offered at par ($30 per share) 185,000 shares of Holly Sugar Corp. 5% cumulative preferred stock (convertible into common stock prior to Aug. 1, 1958). The net proceeds are to be used to reduce unsecured short-term bank loans.

* * *

Jewel Tea Co., Inc., Barrington reports that retail sales for the four weeks ended Sept. 11, 1948 were $11,494,134, or 24% over the same week of last year, while for the 36 weeks ended the same date sales amounted to $102,602,408, a gain of 21.5% over the like 1947 period.

* * *

Central Republic Co. (Inc.) and Harris, Hall & Co. (Inc.) also were among those offering on Sept. 16 an issue of $25,000,000 Indiana & Michigan Electric Co. first mortgage 3% bonds, due Sept. 1, 1978, at 100.79% and interest.

* * *

Deere & Co., Moline, reports sales of $216,959,722 and net income, after charges and Federal income taxes, of $17,490,647 for the nine months ended July 31, 1948, as against $144,972,640 and $12,365,594, respectively, in the corresponding period last year.

* * *

A number of the investment bankers mentioned in earlier paragraphs participated in the following public offerings: (1) Kebbon, McCormick & Co. and Sills, Minton & Co., Inc., on Sept. 8 of 100,000 shares of Verney Corp. common stock (par $2.50) at $14.50 per share, the entire net proceeds going to Gilbert Verney, President of Verney Corp., the selling stockholder; (2) Central Republic Co. (Inc.) on Sept. 22 of $6,300,000 Alan Wood Steel Co. first mortgage sinking fund bonds, 5% series due 1963 (with five-year warrants for purchase of common stock attached) at 100 and interest; (3) William Blair & Co. on Sept. 23 of $12,000,000 Ohio Edison Co. first mortgage 3⅛% bonds due Sept. 1, 1978, at 102.457% and interest; and H. M. Byllesby & Co. (Inc.) on Sept. 30 of 40,000 shares of Metropolitan Edison Co. 4.35% cumulative preferred stock (par $100) at $102.25 per share and dividends.

* * *

Net sales of Consolidated Grocers Corp., Chicago, for the fiscal year ended June 30, 1948, were $125,379,518, a decrease of $16,320,551 from the preceding fiscal year, or 11.5%. Net profit amounted to $2,636,102 after provision for Federal income taxes. After deducting dividends on the preferred stock in the amount of $167,835, the profit amounted to $2.85 per share on the 867,492 shares of common stock outstanding. Current assets totaled $20,708,158, with current liabilities of $5,132,980.

Los Angeles Bond Club Elects Jardine Pres.

LOS ANGELES, CALIF.—New officers of the Bond Club of Los Angeles are J. Earle Jardine, Jr., of William R. Staats Co., President; Albert C. Purkiss of Walston, Hoffman and Goodwin, Secretary; and John A. Carter, Jr., of Vance Sanders & Co., Treasurer, it was announced yesterday following the annual meeting.

J. Earle Jardine Jr.

These three and Ralph Phillips of Dean Witter & Co. are also new directors replacing John E. Jardine, Sr., Guy Witter, Gerald M. Goodman and B. A. Walter who are retiring. The following Directors will carry over for the ensuing year: Rudolph J. Eichler, Cary S. Hill, Willis H. Durst, Francis Moulton and Robert H. Parsons.

The club has concluded a very successful year and now has 226 active members and 38 associate members.

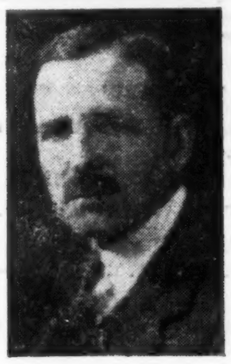
G. B. Takens Now With H. H. Diffenderfer Co.

(Special to THE FINANCIAL CHRONICLE)

BENTON HARBOR, MICH. — Gerritt B. Takens has become associated with H. H. Diffenderfer & Co., Fidelity Building. In the past he was with Straus Securities Co. and Alison & Co. and conducted his own investment business in Grand Rapids.

To Attend Hemispheric Stock Exchanges Parley

The Second Hemispheric Conference of Stock Exchanges, to be held in Santiago, Chile, from Oct. 26 through Oct. 29, will be attended by Howland S. Davis, Executive Vice-President of the New York



Howland S. Davis

Francis A. Truslow

Hans A. Widenmann

Stock Exchange, Francis Adams Truslow, President, New York Curb Exchange, and Hans A. Widenmann, a partner of Carl M. Loeb Rhoades & Co., who will represent the Association of Stock Exchange Firms. Delegates from all South American Exchanges will also be present.

The agenda for this year's meeting includes discussions of economic and financial developments, listing securities of Latin-American companies on United States stock exchanges, standards for public disclosure of corporate information, and legal aspects of the securities business.

The First Conference, which was held in New York in September, 1947, was attended by delegates from 24 exchanges representing 11 countries in the Western Hemisphere. The discussions, at that time, centered upon trading regulations and practices of the various exchanges, foreign exchange controls, and the international movement of capital.

Steps Proposed to Counteract Dangers in Huge Public Debt

Public Debt Policy Study, under aegis of W. R. Burgess and G. B. Roberts, urges budget control, debt reduction and redistribution, and restoration of flexible interest rates. Calls for reform of tax system, with resistance to pressure groups.

Dilution of the dollar, the risk of "boom and bust," the smothering of free enterprise, and loss of human freedoms are the dangers inherent in our huge Federal debt, according to the seventh and final study of the Committee on Public Debt Policy, made public Oct. 8.

W. R. Burgess

George B. Roberts

Specific remedies called for by the study are effective control of the national budget, reduction of the debt and its distribution more widely among investors rather than banks, the restoration of flexible interest rates and the building of a dynamic economy.

The committee, composed of leading bankers, educators, economists and insurance executives, with a staff of advisors, has been studying various phases of the problem for two years with a view to formulating a sound plan for debt management. The final study, the work of W. Randolph Burgess, Committee Chairman, and George B. Roberts, summarizes the findings in the previous chapters and outlines specific recommendations.

On the subject of budgetary control, the committee says: "At a time like this, when national defense and international aid are taking so many dollars, we should be exerting every effort to keep down spending in other directions." The view is expressed that in the $39 billion budget for 1949 "there are vast opportunities for economy if only the government and the public, which in the long run determines government policies, are so minded."

Government Activities Must Be Reduced

Reducing the budget is not merely a matter of more efficient performance of existing government services, the committee declares. "Only by reducing the number of things we ask the government to do, can we hope to make adequate cuts in our bill for government services."

The committee warns that unless we have a philosophy of limiting the scope of federal power in the scheme of things, the tendency will be to go on adding one function after another, not only making more difficult the problem of National debt management, but also "leading us far afield from the individual liberty and democracy on which this country has been built." Those seeking to change the form of our government have been alert to exploit an instinct becoming common in all classes to "run to government at the first sign of a serious problem."

"Costs of national defense are not foreordained," says the committee. "They are matters of policy, planning and execution, hence are adjustable according to how we conceive and carry out our program. Success depends not on how much we spend, but on how wisely. This is equally true of the program of economic aid to foreign countries. Too much money, instead of speeding the return of other countries to a self-sustaining basis, can actually increase and prolong their dependence upon us."

Noting that the cost of veterans' pensions and benefits now exceeds $6 billion annually, the committee says that while these programs have accomplished great good, they have been abused by a minority of veterans who have been content to draw their unemployment compensation rather than take acceptable jobs. Two-thirds of the veterans being cared for under the hospitalization and medical aid program are said to be under treatment for non-service-connected disabilities, while too liberal appraisal and credit

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State of the Nation's Business

By WALTER J. MATHERLY*

Dean of College of Business Administration, University of Florida

Dean Matherly outlines as chief factors in state of nation's business: (1) price inflation; (2) attacks on our private enterprise system; and (3) America's responsibility in international economic reconstruction. Sees remedy for inflation in bringing production and goods into balance with money supply, and lists, as action to strengthen system of private enterprise, reorganization of labor-management relationships, revitalization of small and medium-size undertakings and readjustment of taxation. In international economic affairs, says U. S. must sacrifice some of its preferred position.

To present the state of the nation's business it is necessary to begin with the past, to gather up the present and to carry the results on into the future. The past is the present of yesterday—a million yesterdays. While the past affords us many valuable lessons which each of us may learn, we cannot afford to worship the past or to live wholly in the past. To live wholly in the past is to live blindly, aimlessly, ineffectively. We must accept the world as it is, not as it once was. We must do what is required of us today, not what was required of us yesterday. The French statesman, Briand, once speaking of another French statesman, remarked: "The trouble with that statesman is that he knows history. He lives in a cemetery. He takes himself for Mirabeau one day, Danton the next, the Robespierre the next. He governs in the past. And the result is he neglects the present, even though it is right in front of his nose."

We cannot afford to imitate that French statesman. Neither can we afford to imitate the notorious fly-flu bird, which fabulous old Paul Bunyon of the Northwest described and which he alleged always flew backward. It flew backward for three reasons: first, it did not want to get dust in its eyes; second, it did not give a damn where it was going, and third, it was interested only in where it had been. Wise men judge the future by the lights of the past but they do not dwell in the past; they dwell in the present. They merely utilize the past to interpret the present and to forecast the future. In the language of Winston Churchill, "If the past continues to quarrel with the present there is not hope for the future."

I
Price Inflation

The state of the nation's business which is a product of the past is that of price inflation. While there are other influences, the fundamental causes of price inflation are of two kinds:

(1) **Changes in the supply of money.** If the amounts of money in circulation, including demand deposits, increase, prices rise provided changes in the supply of goods and services do not occur. The greater the supply of money the higher the prices. This situation explains what happened in the United States in the great inflation from 1915 to 1920, what happened with the issuance of greenbacks during the Civil War, and what has happened since 1940. The supply of money in the United States as measured by demand deposits and currency in circulation in June, 1940, was $40,000,000,000. By June, 1948, this supply had increase to $108,000,000,000 or more than two and one-half times, while the volume of physical production, except for war goods and recently except for foodstuffs, increased very slowly or at a rate far below the rate of increase in the supply of money in circulation.

(2) **Changes in the supply of goods and services.** If the supply of money in circulation in any period remains unchanged, increased production of goods and services and their flow into the market will lower prices. The greater the supply of goods, the lower the level of prices. If money forces and the volume of physical production increase or decrease at the same rate, the level of prices remains the same, since one set of forces exactly offsets the other. Increased production, however, will affect prices only when what is produced finds its way into the market. If goods are produced and hoarded or if they are withheld from the market as a result of monopoly or otherwise, prices will be unaffected.

The fundamental causes of price inflation provide us with clues as to the fundamental remedies therefor. Prices at present are high because the supply of money in circulation has increased more rapidly than the supply of physical goods, due partly to increased demand for things abroad and partly to increased demand at home and to scarcities which accumulated during and since the war. Let me illustrate what I mean. The United States Government has estimated that for 1947 the gross national product before any deductions are made for depreciation on capital and for depletion of natural resources will exceed $228,000,000,000. If we convert these 1947 dollars into 1939 dollars, we find that $228,000,000,000 will amount to only $144,000,000,000 or will buy goods worth only $144,000,000,000 at 1939 prices. Dollarwise or in terms of money our gross national product has increased 152% over what it was in 1939 but physical-goods-wise or in terms of physical output it has increased only 59%.

To solve the problem of price inflation one or the other of two basic things is necessary: First, we must reduce the supply of money in circulation by control of bank loans and retirement of government bonds through continued high taxation or otherwise and thereby decrease that supply from 152% increase to 59% increase; or second, we must expand the volume of physical production from 59% increase to 152% increase, thereby bringing the supply of goods and services into line with the supply of money in circulation. Of course, both of these ends could be sought simultaneously and as a result thereof bring the supply of money and the supply of goods together at some intermediate point. Any other cures of price inflation which are prescribed are destined to fail, no matter what either the Republicans or the Democrats in their party platforms or in their campaign pyrotechnics have to say to the contrary.

II
Private Enterprise Under Fire

The state of the nation's business is not only that of price inflation, but also that of private capitalism. The system of private enterprise is under fire — under fire from many quarters. There are those within our national borders who would abolish this system altogther and who would substitute therefor other systems—systems which are alien to America. These systems are of three kinds: first, state socialism; second, communism; and third, fascism—a mouthful of big words which requires a brainful of big understandings.

State socialism is a species of middle-ground collectivism or state control of the economic order in part. It demands government ownership and operation of all the basic means of producing and to some extent of distributing economic goods. It may permit considerable individual freedom and even may allow private ownership of goods held by the owner for his own use. It would be inaugurated, so its advocates, claim, not by revolution, but by evolution or by a process of gradual adoption through the regular legislative channels of government. The government would do most of the things now done by private industry. Profit in the main would cease to exist. A majority of the people would function as government employees. The entire economic system in its basic aspects would become a huge state-owned and state-operated enterprise. It is this kind of system which Prime Minister Clement Atlee and his Labor Party have already introduced into England in part, beginning with the "Old Lady of Threadneedle Street"—the Bank of England.

Communism, which is supreme in Russia and which is on the march in other parts of the world, is complete collectivism or state control of the economic order in full. Under it, if adopted in this country, individual freedom in economic affairs would entirely disappear. No private property of any kind would exist. Each individual would be expected to produce according to his ability and consume or to receive according to his needs. The right to use goods would be a right equally enjoyed by all. Some communists take the postion that collectivism would be applied in other realms. If so, the family and the individual home would disappear; the people would dwell together in public barracks; children would be reared in public nurseries, and food would be served in public cafeterias. Above everything and permeating everything would be the state or government. The communist party organization, which in all communist countries is a shadow state within a state and which is made up of the few at the top rather than of the many at the bottom, would rule the people with an iron hand. Unlike state socialism, communism is based upon direct action and would be inaugurated by revolution or a series of revolutions rather than evolution.

Fascism, which is a curious admixture of ancient autocracy and divine right of kings, in another form came into existence with the rise of the Fascist state in Italy and the Nazi state in Germany. It is an old, old concept. It was familiar to Plato and Aristotle, and from time to time has received wide acceptance in many quarters. Under fascism the individual, apart from society, has no meaning; he is not a human being at

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*An address by Dean Matherly before the 54th Annual Convention of the Kentucky Bankers Association, Louisville, Ky., Oct. 4, 1948.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

The changes which have taken place in money rates, volume of loans and reserve requirements, so far this year make the recent statements of the New York City banks unusually interesting.

In the first place, these statements show how the various banks are meeting the problems of reserves and demand for loans. In the second place, and more important from the standpoint of the stockholder, they indicate what effect these various factors are having on earnings.

Despite these successive increases in reserve requirements in February, June and September which considerably reduced available funds, outstanding loans continued to rise in most cases. The higher reserve requirements were met by the liquidation of government securities.

As to earnings, results were generally favorable when compared with the like periods of 1947. The increase in interest rates on commercial loans and short-term government securities, as well as the larger volume of loans outstanding, more than offset the loss of income from the securities sold to obtain additional reserves.

While most institutions do not issue interim operating statements, an indication of earnings can be obtained by a comparison of the changes in book values at the various dates.

Presented in the following tabulation are the net indicated earnings on a per share basis for 16 New York City banks. The periods covered are the third quarter results for 1947 and 1948 and the nine month's total for the two years. Also shown is the percentage change in earnings for the two periods and the present annual dividend rate.

	Net Indicated Earnings Per Share						
	Third Quarter		%	Nine Months		%	Annual
	1948	1947	Change	1948	1947	Change	Div.
Bank of Manhattan	$0.57	$0.48	+19	$1.65	$1.41	+17	$1.20
Bankers Trust	0.69	0.69	--	2.32	1.94	+20	1.80
Central Hanover	1.50	1.50	--	4.50	4.50	--	4.00
Chase National	0.63	0.61	+ 3	1.69	1.92	—12	1.60
Chemical Bk. & Tr.	0.75	0.66	+14	2.23	2.07	+ 8	1.80
Commercial National	0.75	0.83	—10	2.46	2.57	— 4	2.00
Corn Exchange	1.25	1.25	--	3.70	3.74	— 1	2.80
First National	18.68	17.59	+ 6	60.79	58.18	+ 4	80.00
Guaranty Trust	4.48	3.92	+14	13.66	13.66	--	12.00
Irving Trust	0.30	0.29	+ 3	0.90	0.85	+ 6	0.80
Manufacturers Trust	1.18	1.10	+ 7	3.77	3.40	+11	2.40
Morgan (J. P.)	3.86	3.56	+ 8	12.17*	11.34	+ 7	8.00
National City†	0.74	0.78	— 5	2.29	2.65	—14	1.60
New York Trust	1.69	1.70	— 1	4.83	4.87	— 1	4.00
Public National	1.23	1.06	+16	3.56	3.13	+14	2.00
U. S. Trust	10.50	8.31	+26	29.35	26.43	+11	35.00

*Before transfer of $1,000,000 equal to $5.00 per share to a reserve for building expenditures.

†Includes earnings of City Bank, Farmers Trust Company.

It should be mentioned that accounting practices differ among the various banks. In some cases the net indicated earnings shown above include results from the sale of securities. The weakness in government bond prices earlier this year, as a result of the lowering of support prices, reduced the indicated net for a number of institutions. Even taking this factor into consideration most banks showed higher earnings.

Those few banks which do report operating earnings, generally showed favorable comparisons. Bankers Trust, Chase National, Guaranty Trust, Manufacturers Trust and National City all reported operating earnings for the first nine months higher than a year ago.

As can be seen from the above figures the dividend policies are conservative. With the exception of First National and U. S. Trust, all of the institutions listed are indicated to have more than earned their dividend requirements during the first nine months.

The present indications are that the same fundamental factors influencing bank operations and earnings will be present during the remainder of 1948. For this reason results for the full year should be favorable in comparison with previous periods.

Note — The column of Sept. 23 was based on an article written by Shelby Cullom Davis of Shelby Cullom Davis & Co., under the caption "Fire Insurance Stocks Are Investment Insurance." Through inadvertence, mention was not made of the fact that the full text of the article had been published in the August edition of "The Chicago Letter" issued by Carter H. Harrison & Co., Chicago 4, Ill. We regret this oversight.

C. A. Peine Mun. Mgr. For Tucker, Anthony

Charles A. Peine has become associated with Tucker, Anthony & Co., 120 Broadway, New York City, members of the New York Stock Exchange, as manager of the firm's New York municipal department, it is announced. Previously, Mr. Peine had been with White, Weld & Co.

Mr. Peine's association with Tucker, Anthony & Co. was previously reported in the "Financial Chronicle" of Aug. 12.

Central Hanover Quarter Century Club to Meet

The Quarter Century Club of Central Hanover Bank & Trust Company will meet tonight (Oct. 14) at the Hotel Roosevelt. About 300 men and women who have been in the employ of the bank for 25 years or more are expected to attend the dinner and entertainment which is held annually. William S. Gray, Jr., President of the bank, will address the members of the club. Charles Swanwick is the retiring Club President.

Roy C. Nelson Dead

Roy C. Nelson, President of Nelson Browning & Co., Cincinnati investment firm, died Oct. 9 at the age of 50.

COMING EVENTS

In Investment Field

Oct. 14, 1948 (New York City)
New York Group of Investment Bankers Association annual meeting at Hotel Pierre.

Oct. 28, 1948 (Boston, Mass.)
Boston Securities Traders Association annual Harvest Party, at the Hotel Kenmore.

Nov. 13, 1948 (Chicago, Ill.)
Bond Traders Club of Chicago Luncheon for members of NSTA passing through Chicago on way to the Convention.

Nov. 14-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Nov. 18, 1948 (New Orleans, La.)
New Orleans Security Traders Association entertainment for delegates coming from NSTA Convention—details to be announced later.

Dec. 5-10, 1948 (Hollywood, Fla.)
Investment Bankers Association 1948 convention at the Hollywood Beach Hotel.

NSTA Notes

NEW ORLEANS SECURITY TRADERS' ASSOCIATION

At a meeting of the New Orleans Security Traders' Association held on Oct. 5, 1948 the following officers were elected:

President—Jackson A. Hawley, Equitable Securities Corporation.

Vice-President—Macrery B. Wheeler, Wheeler & Woolfolk, Inc.

Sec.-Treasurer—Geo. H. Nusloch, Nusloch, Baudean & Smith.

Delegates—Joseph P. Minetree, Steiner, Rouse & Co. and William Perry Brown, Newman, Brown & Co.

Alternates—R. J. Glas, Glas & Co., and H. Wilson Arnold, Weil & Arnold.




Jackson A. Hawley Macrery B. Wheeler George H. Nusloch Joseph P. Minetree



Wm. Perry Brown R. J. Glas H. Wilson Arnold

These are the same officers, delegates and alternates that were elected for the year 1947-1948, the same having been re-elected for the year 1948-1949. This, incidentally, is the first time in the history of the Association that officers succeeded themselves.

At this meeting plans were discussed for the entertainment of the delegates to the National Security Traders' Association, Inc. convention to be held in Dallas in November, who will return by way of New Orleans to be the guests of the members of the New Orleans Security Traders' Association.

NSTA TO HEAR DeGOLYER: "THE NATURAL GAS INDUSTRY"

E. L. de Golyer

E. L. DeGolyer, world famous consulting geologist and senior member of the firm of DeGolyer and MacNaughton, Dallas, Texas will be the guest speaker at the Corporate Forum, National Security Traders Association, Nov. 16, the Baker Hotel, at 2 p.m. Mr. DeGolyer will talk on "The Natural Gas Industry" to members and delegates of the NSTA. This distinguished speaker has spent a considerable amount of time the past 20 years lecturing and speaking before various groups. Mr. DeGolyer was Aldred lecturer at Massachusetts Institute of Technology in 1929; Cyrus Fogg Brackett lecturer at Princeton University in 1939, and Clark Vanurem lecturer at the same school in 1941. During 1940 he served as Distinguished Professor of Geology at the University of Texas.

BOSTON SECURITIES TRADERS ASSOCIATION

The Boston Securities Traders Association will hold their annual harvest party at the Hotel Kenmore on Oct. 28. Gilbert M. Lothrop, W. E. Hutton & Co., is Chairman of the Committee.

TEXAS BOYS READY TO "TEE OFF"

Keen competition will be the "last word" in the Golf Tournament scheduled for the first day of the November Convention at Dallas, Texas. Johnny Cornell, Dallas, Rupe & Son, Chairman of the Dallas Golfers expects to have one of the strongest foursomes in the meet even though he discovered recently that "Doak Walker of Southern Methodist University" won't be available. Too, the Dallas crowd have been hearing rumors that there are some pretty good golfers in Houston so that it looks like a pretty solid front will be on hand from the Texas groups.

Texans are known for their fair play so that the Dallas Bond Club has ordered fair to sunny weather for the occasion. Also, caddies have been instructed not to give out with "The Eyes of Texas" until the 19th hole. And to further demonstrate our "fair play," all handicaps will be figured under the **Calloway System of Automatic Handicapping.**

Each of the 28 affiliates is eligible to submit a four-man team for the feature event with the winning team receiving the National Quotation Bureau, Inc. Inter-City Team Trophy. This trophy, a beautiful 12" sterling silver Paul Revere bowl, is held for one year

by the winning affiliate and each member of the winning team is given a small replica of this bowl.

The Union Bank & Trust Company of Los Angeles will present a trophy for the individual low gross. Any member of an affiliate attending the Convention is eligible to compete for this prize. And, too, any member playing on an Inter-City team is eligible regardless of his team's score.

A very attractive prize will be given by the Blue List for the best score of municipal men golfers.

Additional prizes ranging from a Texas steer to a list of telephone numbers will be presented by the Dallas Bond Club for the numerous other events being arranged.

Golfers are urged to send entries along with registration. Both golf and registration entries may be mailed to either Johnny Cornell, 903 Kirby Building or to Carroll Bennett, same address.

Members of the Golf Committee are: Judson James, James & Stayart, Inc.; Winton Jackson, First Southwest Co.; Nelson Waggener, Walker, Austin & Waggener; Lewis Rodgers, Central Investment Co.

Dallas Golfers Practicing for NSTA Convention

Members of the Golf Committee are shown brushing up on their putting at the Dallas Country Club. From left to right: Nelson Waggener, of Walker Austin & Waggener; Judson James, of James & Stayart; Winton Jackson, First Southwest, and Johnny Cornell, of Dallas Rupe & Son.

Here, Delegates, Is Texas

Jim Davis, of E. F. Hutton & Company, and Sam Johnson, of Harris Upham, are shown with the following examples of Texas pulchritude: Miss Jean McCright, Miss Joan Adams and Miss Ruth Lindley.

Square Dancin' Time Down in Texas

Jim Jacques, First Southwest, appears quite absorbed as Mrs. Jacques calls out the next step in a practice square dancing session held recently by members of the Dallas Bond Club. Other members dancing with their wives are: Bill Newsom, of Sanders & Newsom; Merrill Hartman, Merrill Lynch, Pierce Fenner & Beane; Charles Pierce, of Raucher, Pierce & Co., Inc., and Allen Oliver, of E. F. Hutton & Co.

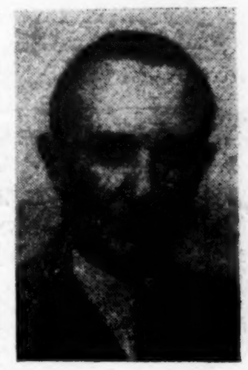
Natural Gas Company Stocks

By GEORGE A. BUTLER, Partner, Butler, Moser & Co.

Investment analyst gives data on natural gas industry and on market action of gas company stocks. Says these shares have acted marketwise better than average.

Natural gas companies sold 3,458,457,000,000 cubic feet in the 12 months to July 31, compared with 3,035,992,000,000 cubic feet in the 12 months to July 31, 1946, an increase of 13.9%. Operating revenues for the two 12 month periods were $794,007,078 and $710,303,-175, an increase of 11.8%.

In spite of a 14.5% rise in total operating expenses from $426,850,884 to $488,-694,220, and a 10.6% increase in taxes from $88,180,178 to $97,514,036, net income rose 2% to $148,447,783 from $145,546,878.



George A. Butler

The two most important advantages of natural gas over other fuels are well recognized today—cheapness and cleanliness. Another advantage of great importance is the low labor cost in relation to gross revenues.

Natural gas pipe lines total at the present time some 230,000 miles, and in spite of the steel shortage bid fair to show considerable increase over the next few years. Pipe line projects approved or pending with the Federal Power Commission will cost over one billion dollars and increase transmission capacity by nearly 50%.

The growth of the industry is well illustrated by the fact that total natural gas sales increased 135.6% from 1935 to 1947.

It would appear that common stocks of natural gas companies have been meeting with increasing favor, as shown in the accompanying tabulation. A record of natural gas (some natural and manufactured) companies has been maintained since March 26, 1947. At that time the records of 11 companies were kept. The list was added to from time to time until it now comprises 42 issues. It can be seen from the tabulation that from the time records first began to be kept of the different issues up to Sept. 22, 1948, 30 showed increases, 7 declined, and 5 no change. The tabulation illustrates as well, that the New York "Times" average of 50 stocks taken on the day of the first recording of the gas company stocks, and compared with the average on Sept. 22, 1948 shows 18 increases and 24 declines.

Comparing the action of the natural gas company stocks on Sept. 22, 1948 and the date first recorded with the New York "Times" 50 stocks average in the same way we find that 33 of the 42 natural gas company stocks behaved better marketwise than the averages.

There would seem to be little question but that natural gas company stocks have acted better than the general market as pictured by the New York "Times" average of 50 stocks.

We feel that this is likely to continue as more people begin to appreciate the opportunities for appreciation and stable income return that exist in the common stocks of the rapidly growing natural gas industry.

NATURAL GAS COMPANIES

Where Traded		Date First Recorded	N.Y.Times 50 Stocks on Date	N.Y.Times 50 Stocks 9/22/48	Change in 50 Stocks	Price Stock on Date First Recorded	Price Stock 9/22/48	Net Change in Stock	% Change in Average	% Change in Stock
C	Arkansas Natural Gas	3/26/47	117.1	116.6	— .5	5¼	5⅜	+ ⅛	— .4%	+ 2.4%
O	Arkansas Western Gas	11/12/47	117.5	116.6	— .9	16	*13⅝	+ ⅜	— .8	+ 2.3
O	Atlanta Gas Light	9/10/47	115.9	116.6	+ .7	16⅞	17¾	+ ⅞	+ .6	+ 5.2
O	Central Electric & Gas	4/23/47	112.8	116.6	+ 3.8	8	8	--	+ 3.4	--
NY	Columbia Gas	8/ 4/48	119.0	116.6	— 2.4	12½	12	— ½	— 2.0	— 4.0
O	Commonwealth Gas	9/15/48	118.4	116.6	— 1.8	5⅛	5⅛	--	— 1.5	--
C	Consolidated Gas Utilities	4/23/47	112.8	116.6	+ 3.8	7⅞	10¾	+ 2⅞	+ 3.4	+36.5
NY	Consolidated Natural Gas	3/24/48	113.3	116.6	+ 3.3	47¼	44¾	— 2½	+ 2.9	— 5.3
O	Cumberland Gas	9/15/48	118.4	116.6	— 1.8	4	4¼	+ ¼	— 1.5	+ 6.3
NY	El Paso Natural Gas	3/24/48	113.3	116.6	+ 3.3	63½	69¼	+ 5¾	+ 2.9	+ 9.1
O	Empire Southern Gas	10/22/47	120.4	116.6	— 3.8	19½	26¼	+ 6¾	— 3.2	+34.6
O	Hamilton Gas	9/15/48	118.4	116.6	— 1.8	9⅛	9⅛	--	— 1.5	--
O	Houston Natural Gas	3/26/47	117.1	116.6	— .5	43	†15¾	+ 4¼	— .4	+ 9.9
O	Indiana Gas & Water	3/26/47	117.1	116.6	— .5	15⅛	16¼	+ 1⅛	— .4	+ 7.4
O	Interstate Natural Gas	5/ 7/47	113.1	116.6	+ 3.5	23	25⅛	+ 2⅛	+ 3.1	+ 9.2
O	Kansas Nebraska Natural Gas	3/26/47	117.1	116.6	— .5	15¾	15⅞	+ ⅛	— .4	+ .8
C	Lone Star Gas	3/26/47	117.1	116.6	— .5	18	22¼	+ 4¼	— .4	+23.6
O	Minneapolis Gas	8/25/48	119.4	116.6	— 2.8	11¼	11½	+ ¼	— 2.3	+ 2.3
O	Mobile Gas Service	3/26/47	117.1	116.6	— .5	20⅛	23½	+ 3⅜	— .4	+16.8
O	Mountain Fuel Supply	4/23/47	112.8	116.6	+ 3.8	15¼	21⅜	+ 6⅛	+ 3.4	+40.2
C	National Fuel Gas	3/24/48	113.3	116.6	+ 3.3	12⅛	11⅝	— ½	+ 2.9	— 4.1
NY	Northern Natural Gas	4/23/47	112.8	116.6	+ 3.8	51	‡30½	+10	+ 3.4	+19.6
O	Northern Oklahoma Gas	10/22/47	120.4	116.6	— 3.8	12½	12¾	+ ¼	— 3.2	+ 2.0
C	Oklahoma Natural Gas	3/26/47	117.1	116.6	— .5	31¼	34⅜	+ 3⅛	— .4	+10.0
NY	Panhandle Eastern Pipe Line	10/22/47	120.4	116.6	— 3.8	53½	58	+ 4½	— 3.2	+ 8.4
O	Pennsylvania Gas	3/26/47	117.1	116.6	— .5	21	21	--	— .4	--
NY	Peoples Gas Light & Coke	3/26/47	117.1	116.6	— .5	93½	96½	+ 3	— .4	+ 3.2
O	Republic Natural Gas	9/17/47	115.9	116.6	+ .7	56⅛	§32½	+ 8⅞	+ .6	+15.8
C	Rio Grande Valley Gas	3/26/47	117.1	116.6	— .5	2	2	--	— .4	--
NY	Shamrock Oil & Gas	3/31/38	115.0	116.6	+ 1.6	31	31⅜	+ ⅜	+ 1.4	+ 1.2
O	Southeastern Public Service	8/ 6/47	121.0	116.6	— 4.4	4¾	4	+ ¾	— 3.6	—15.8
NY	Southern Natural Gas	8/20/47	119.0	116.6	— 2.4	23⅜	27⅛	+ 3¾	— 2.0	+16.0
O	Southern Union Gas	3/26/47	117.1	116.6	— .5	19⅝	17⅞	— 1¾	— .4	— 8.9
O	Southwest Natural Gas	4/16/47	110.6	116.6	+ 6.0	2½	4	+ 1½	+ 5.4	+60.0
O	Tennessee Gas Transmission	4/23/47	112.8	116.6	+ 3.8	16¼	30¾	+14½	+ 3.4	+89.2
O	Texas Gas Transmission	7/ 7/48	126.9	116.6	—10.3	11⅛	11¾	+ ⅝	— 8.1	+ 5.6
O	Texas Public Service	4/ 2/47	118.4	116.6	— 1.8	22⅝	24⅜	+ 1¾	— 1.5	+ 7.7
O	Texas Southeastern Gas	12/17/47	116.3	116.6	+ .3	6⅞	6¾	— ⅛	+ .3	— 1.8
C	United Gas	3/24/48	113.3	116.6	+ 3.3	18	19¼	+ 1¼	+ 2.9	+ 6.9
NY	Washington Gas Light	4/23/47	112.8	116.6	+ 3.8	22¾	23⅞	+ 1⅛	+ 3.4	+ 4.9
O	West Ohio Gas	3/10/48	108.1	116.6	+ 8.5	10	9	— 1	+ 7.9	—10.0
O	York County Gas	5/ 7/47	113.1	116.6	+ 3.5	53½	56	+ 2½	+ 3.1	+ 4.7
	AVERAGE		116.3	116.6		22.6651	25.7262		+ .3%	+13.5%

NY—New York Stock Exchange. C—New York Curb. O—Over-the-Counter.

*Equivalent to 16⅜—1⅕ for 1, April 14, 1948. †Equivalent to 47¼—3 for 1, Jan. 28, 1948. ‡Equivalent to 61—2 for 1, Sept. 17, 1947. §Equivalent to 65—2 for 1, Oct. 15, 1947. ¶No change.

Mutual Funds

By HENRY HUNT

A Comparison With Life Insurance Growth

Life insurance in this country traces its origin back to the late 1700s but it was not until 1899, more than a century later, that the combined assets of all American life insurance companies hit $1,600 million approximately the present assets of the mutual fund business which is less than 25 years old.

Growth of mutual fund assets in recent years has been rapid, far more rapid than that of life insurance assets on a percentage basis. However, with mutual fund assets starting from a low base this is not surprising. Over the next 10 years, mutual fund assets are not apt to duplicate their 500% growth of the past decade, but on a dollar basis they should show an even greater growth. The following tabulation, listing the increase in life insurance company assets during the past 50 years, is an indication of the growth potential of the mutual fund business:

Year	Assets of All American Life Insurance Cos.
1897	$1,345,000,000
1907	3,053,000,000
1917	5,941,000,000
1927	14,392,000,000
1937	26,249,000,000
1947	51,735,000,000

While many forms of life insurance are not comparable to the purchase of mutual fund shares, policies of the endowment or annuity type may be classified as direct competition to the mutual fund business. Roughly speaking, endowment insurance policies require long-term compulsory saving (unless you want to take a beating) while mutual funds encourage the voluntary investment of surplus savings. Furthermore, mutual funds are designed to provide a higher return than do insurance policies of the "investment" variety, few of which yield more than 2½% today.

Unless American industry has reached its zenith, mutual funds with a substantial part of their assets in common stocks, are apt to show considerably greater returns over the longer term than such insurance policies.

For Novice Salesmen

Selling mutual funds is like pouring ketchup out of the bottle. It's tough getting started but once it begins, boy, oh, boy!

The Law of Averages

Calvin Bullock recently published an elaborate three-color management booklet replete with charts, beautiful illustrations and line drawings. The copy is thoroughly readable throughout, with the following being a sample:

"The principle of spreading risks—diversification—is not peculiar to sound investing. It is practiced by intelligent businessmen, farmers and many others in their daily lives. It is only the application of the law of averages. That law will never be repealed.

"Well established, too, is the principle of seeking professional advice. The average man consults the doctor, the lawyer, the scientist when he has need of them.

"Investing money is likewise a profession.

"Yet the average man who works so hard to make that money is often careless beyond belief in his efforts to preserve it—and to make it work for him.

"It seems so clear that the man with money to invest should not risk his all in one or two or even a dozen securities, selected at random, reviewed only 'once in a while.'

"Diversification itself is not enough. In order to provide adequate protection to principal and income, diversification must anticipate the many changes affecting values. For example:

"Think of the startling number of recent inventions, many born of war. What industries will they create? Which of our present industries will be outmoded? The new constantly replaces the old.

"Our basic economic pattern changes, too. Our social and political environment is far from static.

"Prosperity, recessions, depressions have followed one another throughout history. These affect different types of securities in different ways.

"Each industry, moreover, has its peculiar trend, each is affected by special influences peculiar to it alone. And individual corporations often go counter to a general trend.

"If you understand all these problems thoroughly then you have made a start on sound investing. Just a start.

"Complex? Indeed it is. Even for the professional investment managers.

"These are the problems, however, that the management of investment companies endeavors to solve for you. That is their job."

Ways to Increase Your Income

"Keynotes," published by the Keystone Company of Boston, cites five ways to increase your income as follows:

"Improve Your Mortgage Holdings. If you hold a mortgage, it would be well to review it carefully to see if your money is invested as advantageously as possible. Normally, mortgage income is relatively dependable and satisfactory. Unfortunately, today the inflation in real estate values frequently makes the security behind a mortgage questionable, and return is sometimes low in relation to doubtful liquidity in future. Money so used may be better invested elsewhere.

"Increase Income from Property. Under some circumstances property can be more of a drain than an asset. Do you have property that might profitably be leased or rented? If it is already leased, can you lease it at a better rate after improvement? In some cases maintenance and repair are disproportionately high in relation to controlled rentals, and sale and reinvestment of money may be indicated.

"Put Idle Money to Work. Bank deposits usually pay a return of from 0 to 2%; some Mutuals pay slightly more. Even capital in Savings and Loan Associations is probably paying only from 2½% to 3¼%. Certainly a much higher return can be obtained today through a variety of investments.

"Increase Net inecome by Making Gifts. Under present Federal gift tax and estate tax provisions, it is sometimes possible to increase your net income by making gifts of income-producing property or investments to members of your family now. Your investment dealer and your lawyer can best advise you in this regard.

"Increase Income From Securities. A check of your security holdings against the entire range of possible security investments may reveal that you are getting good income results, or it may show that you have overlooked types most suitable for income. If your holdings are divided among a sufficient number of issues chosen from income-producing classes of securities, you should enjoy relatively dependable income ranging from 4% to 6% or more, depending on the classes you employ. Some other investments—mortgages, rental property, farm property, etc.—might be profitably converted to this type of investment."

"Pegging" of Government Bonds

Hugh W. Long's October **"New York Letter"** discusses government financial policies, particularly with respect to "pegging" the market for U. S. Government Bonds. It concludes as follows:

"Our opinion on the pegging of government bonds may be summarized in this manner. If the cost of living stabilizes or declines moderately during 1949, the policy of supporting long-term government bond prices at current or only moderately lower levels is likely to be continued for a time.

"Inflation could gain momentum as the result of either a substantial increase in armament expenditures or of a dynamic revival of confidence in the longer term business outlook. In this event the fiscal authorities may have no choice but to lower, if not largely discontinue, the support program.

"Eventually the artificial pegging of government bond prices will have to be abandoned unless we desire to have a regulated economy or disastrous further loss in the real value of the dollar.

"None of these possibilities in themselves strike us as detrimental to the investment of funds in common stocks."

Recommended Reading

Watling, Lerchen & Company of Detroit has issued an eight-page pamphlet titled **"Mutual Funds and The New American Capitalism,"** which we found to be well worth reading. The following is an excerpt:

"Mutual funds are vital to progressive American capitalism because they constitute the most practical method by which the average man or woman can own a share of big business with reasonable prospects of success. They accomplish this by institutionalizing the investment management problem.

"Steps taken by government and industry to broaden stock ownership are only half measures. Such steps fail to take into account the investor himself, who may be emotionally unstable, lack financial resources for diversification, and may have no training or skill in the handling of investments. **Too many investors fail the first time for one or more of these reasons and never again invest in common stocks.**

"In contrast mutual funds are run by experienced investment managements and have adequate resources for scientific diversification. Their managements are seldom misled by sentiment in selection of investments.

"Mutual funds invest primarily in big and medium sized businesses because they must remain liquid.

"If two of the three major points in our progressive capitalism —namely (1) increasing the number of economically stable families and (2) widespread ownership of big business—are to be achieved, it will be through an extensive increase in the use of mutual funds. No other answer is practical."

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, IND.—Clare A. Johnson is now with Herrick, Waddell & Reed Inc., Union Title Building, Indianapolis.

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LOUISVILLE, KY.—Boone Rose, Jr. is now with Merrill Lynch, Pierce, Fenner & Beane, 231 South Fifth Street.

Private Placements—A New Medium of Financing

By SHERWIN C. BADGER*
Second Vice-President and Financial Secretary
New England Mutual Life Insurance Company, Boston

Asserting private placements are no fly-by-night development, Mr. Badger estimates in past decade $10 billions of securities have been disposed of by this method. Contends it is logical evolution developed to meet declining volume of long-term issues in face of increasing demands by institutional investors. Stresses adverse effects of confiscatory taxes on market for corporation equities, and contends life insurance companies have, because of this, become most important custodian of savings. Denies insurance companies do banking business and private placements lack marketability or are risky.

I have chosen private placements as a subject for three reasons. First, they have become increasingly important to life insurance and to American business during the past few years. Second, they are not generally understood yet. And third, they involve many broad problems that are of concern to each and every one of us even though many life insurance companies have not yet participated in this type of investment.

Sherwin C. Badger

By private placements I mean, of course, the direct placement of bonds, debentures, notes or preferred stocks with institutional investors as contrasted to public offerings through investment bankers in the open market. They closely resemble a method of financing that has long been familiar in the real estate mortgage field, but that has been adapted only comparatively recently to the securities field. Because it is new and also because it has grown so rapidly, it is perhaps understandable that it is looked upon with suspicion by some as a quite revolutionary development. It is largely because of private placements, for example, that we are accused of having entered the banking business with all that could imply in potential regulation.

It seems to me extremely important that we should understand the nature of the private placement of securities and the reasons for its development. No less important, we must recognize the problems they present both to ourselves and to regulatory bodies. Perhaps also we should explore the potentialities of further utilization of this mechanism for the financing of American industry.

In everything which I shall say concerning private placements, I want to emphasize that I am assuming, and I think justifiably, that the overwhelming majority of life insurance companies investing in private placements are selecting them with the same high standards and the same diligence traditionally used in the selection of real estate mortgages or municipal securities. This does not mean that errors of judgment have not, or will not, be made in the private placement field—any more than it means comparable mistakes have not, or will not, be made in the better known fields of investment.

Extent of Private Placement

This business of private placements is no fly-by-night development, neither is it small. During the past ten years approximately $10 billions of securities have been placed by this method, representing about 30% of all corporate flotations in the period. To date this year the figure has been nearly 40%, while in industrial financing, as distinguished from railroad and public utility financing, the percentage is very much higher.

As for the position of life insurance companies, the best figures we have come from a survey of 47 companies made by the Sub-Committee on Valuations of the National Association of Insurance Commissioners. This survey showed that at the end of 1946 these 47 companies owned a little over $4¾ billions of private placements. I should guess that as of today total holdings of life companies might be in the neighborhood of $6 billions, or well over 10% of admitted assets.

When we get into figures of such magnitude we can be relatively certain that we are dealing with something more significant than a fad. In this particular matter it seems to me we are dealing with a logical evolution, one that has developed to meet specific financial needs caused by changed conditions in the capital markets.

These changed conditions both before and since the war have come about as a result of many influences, most of them interacting. As you are all aware, during the 15 years ended 1945 the long-term private debt of this country declined from about $94 billions to $72 billions. You are even more painfully aware that because of this deline we went through a struggle to put our expanding assets to work at anything approaching a reasonable rate of return. The rising supply of investment funds on the one hand and the falling demand for capital on the other, aided and abetted by the government's low interest rate policies, made it increasingly difficult for life companies, particularly the larger ones, to purchase enough corporate investments in the open markets to meet their needs. Therefore, in order to be able to assure themselves of suitably sized blocks of new securities, many insurance companies took aggressive steps to arrange for the direct placement of entire issues privately.

Influence of SEC Registration Requirements

In seeking such investments in a highly competitive market, insurance companies had much to offer. In the first place, through private placement a corporation could avoid the trouble, and part of the cost, of registering with the SEC. Many corporations stress that the most burdensome part of registration with the SEC is not the original filing, but the continuing requirement over the years for additional reports, compliance with new rulings and many other details which some people sometimes refer to, unflatteringly, as red tape.

Ordinarily, financing directly via the private placement route is less costly to a corporation than financing through a registered public offering. The reverse of this, of course, is that insurance companies have usually been able to share part of the savings of setting up a private placement and have received a higher yield than would have been obtainable if the issue had been sold in the open market.

A second consideration in private placements, often important from a corporation's standpoint, is their flexibility. If unexpected future changes should make some modification of indenture terms or of financial structures advisable, wouldn't it obviously be more practical to negotiate with a few sophisticated creditors or stockholders who will have had long personal acquaintance with the corporation's affairs than with scattered holders among the general public? And, incidentally, might this not be more practical from the creditors' standpoint? Certainly we know from experience that in a public issue small and obstinate minority security holders who are more interested in the ticker tape than in investing can, through strike suits and holdout positions, be extremely costly to the best interests of investors and corporations alike.

There were many other advantages of private placement. For instance, the comparative ease of negotiating a "tailor made" piece of financing to meet an unusual situation. A good recent example is the $250,000,000 loan to Shell Carribean Oil, a transaction so complicated that it probably could not have been financed publicly.

Both before and since Pearl Harbor, private placement has been an increasingly important method for the financing of small and medium sized corporations. What I have in mind is corporations in need of sums up to say $2,000,000 (and many people might set the figure even higher). In most cases the cost of distributing a new bond issue of this size to the public has become almost prohibitive, partly due to the requirements of the SEC, and partly to changes in the bond market itself since the advent of easy money and high personal income taxes. The individual buyer of high grade corporate bonds has all but disappeared under the twin impact of low interest rates and taxes. Hence the corporate bond market has become very largely an institutional affair.

Question of Small Bond Issues

Why, it may be asked, shouldn't institutions like insurance companies, be as willing to buy small bond issues that are offered publicly as to buy them through private placement? The answers, it seems to me, are obvious. In most cases smaller bond issues involve corporations that are little known to the investment world. Often they are unknown because they have been closely held or family owned. The facts and figures portrayed in a prospectus on such a company may suggest a bond is perfectly good, but to a prudent insurance company cold facts on an unknown company are insufficient evidence to justify a purchase. What about the all-important factor of management? How is the corporation regarded by its suppliers and customers? What is its reputation in the trade? Are its plants efficient, up-to-date and well maintained? It costs time and money to investigate these matters.

The very practical question comes up whether in a small public offering such investigation is justified. Does it make sense, for example, for an Eastern insurance company to send a man to the West Coast to make a study of a company contemplating a public bond issue of $1,000,000? Even if investigation shows the bond does meet the required qualifications, the Eastern insurance company has no assurance it will be able to buy any reasonable amount of bonds, because com-

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*An address by Mr. Badger before the Financial Section of the American Life Convention, Chicago, Ill., Oct. 4, 1948.

The Stock Market as a Guide in Managing Life Insurance Portfolios

By THOMAS W. PHELPS*
Partner, Francis I. du Pont & Co.
Member of New York Stock Exchange

Investment banker calls attention to dangers confronting life insurance companies in acquiring issues of securities independently of stock market guides and registration. Says tactics of isolation may be opposed to public welfare and thus bring about counter regulations to forestall insurance investment monopoly. Warns insurance companies lose when they do not get judgment of investment banking business. Points to present stock market situation, and shortage of risk capital as menace intensified by life insurance companies' encouragement of bonded indebtedness. Holds sound equity investments a buffer to sound bond investment.

You gentlemen represent the most amazingly successful business in the most powerful nation in the history of the world. That is the business of the United States life insurance companies. Your assets have increased from less than a billion dollars in 1891 to more than $50 billion at the end of last year.

Thomas W. Phelps

Despite the awe-inspiring size of your business, it seems to be growing as vigorously as ever. Between 1891 and 1934 the assets of your companies increased by $21 billion. That took 33 years. Your assets increased by that much again in the last seven years, 1941 through 1947.

You passed through the greatest depression in our history without once showing a year-to-year decline in assets. In fact, not once in the last half century and more have your assets at the end of any year failed to set a new high record.

The total amount of life insurance owned in the United States is approaching the $200 billion mark. Nearly four out of five families have one or two members who own life insurance.

I could go on this way for the rest of my allotted 20 minutes, but you know the figures of your business. I have been recalling a few of them to you merely to show that despite the announced subject of my talk I come before you with the admiration and humility that should characterize anyone in the presence of top executives of the most successful business on earth.

I probably should not have come at all had I not recalled a story I read many years ago, the story of a great king who was the absolute master of all the world known to him. As the story goes, the king was as wise as he was powerful. Being wise, he knew that it was inevitable that he should be surrounded by people who would flatter him and agree with him. Accordingly, he commanded the court jester to stand near him on state occasions, and hit him in the face now and then with a wet bladder, just to remind him that he, too, was mortal.

History does not relate what happened to the jester, but I suspect that sooner or later he obeyed his instructions too enthusiastically and lost his head. Nevertheless, when I tried to figure out how I could add anything to the vast pool of knowledge and experience you have here, I despaired until I thought of the court jester's role. Accordingly, I am here not to tell you anything, but merely to raise some troublesome questions. You undoubtedly are better qualified to answer them than I.

My first question is, "How much longer can you continue to grow at the rate of the last 10 years and still hope to invest the great bulk of your assets so that they occupy a protected position in our economy? Right now more than 90% of your assets is invested in bonds and other fixed-income securities. But for every such security there must be a buffer, some equity value that will absorb the shock of a considerable decline in the earning power of the issuer.

I know that the life insurance companies are engaged in extensive research, seeking new sound bases for further widening of their investment channels. I am aware that the extensive development of rental housing, GI mortgage financing, real estate for investment, and stock holding are all results of that continuing research. But my second question to you, in my self-appointed role of the ancient king's court jester, is this:

"Are you changing your investment policy fast enough, and in the right way?"

There are many signs that it is later than you think.

Danger of Isolation of Insurance Companies as Investors

A country editor once observed that there is something about financial success for an individual that tends to make him a poor citizen. The editor went on to explain that as soon as a man mounts a few rungs on the economic ladder he takes his children out of the public schools and puts them in private schools rather than continuing to work to make the public schools better. He builds himself a house on a hill outside of town, puts a wall around it, and hires a watchman instead of striving to make the whole town beautiful and safe for all. Sometimes he even develops his own water supply and his own fire-fighting equipment. The worse his town is run—in other words, the more it needs the help of its most able men—the more inclined he is to solve his individual problems that way.

Is there any danger that in analyzing the investment problems of your own superlatively successful business you may be thinking too much about making sure that your companies will be all right in event of another deep depression, and not enough as managers of a business so large that nothing that is good or bad for the country as a whole can fail to be good or bad for you?

Unlike the individual who has nothing but his conscience to restrain him from looking out for himself and letting the devil take the hindmost, I suspect that you already have, or soon will have, too big a stake in the "town" to make it practicable for you to think of anything but the general welfare. Your advertising urging the public to guard its health indicates that you already are thinking that way regarding some

(Continued on page 33)

*An address by Mr. Phelps before the Financial Section of the American Life Convention, Chicago, Ill., Oct. 5, 1948.

Securities Salesman's Corner

By JOHN DUTTON

John Albert Goodpasture, Captain AUS retired, who is now in a veteran's hospital as a result of three years as a Jap POW, has written us an interesting letter. Several weeks ago we made the observation that we believed that there was such a thing as brain waves between people, and we inferred that positive brain waves could be used in selling to the advantage of the salesman. We quote from Captain Goodpasture's letter. "I absolutely agree with what you say about brain waves; I have repeatedly observed it when a salesman prior to World War II; also my father (now deceased) who was an expert salesman for 20 years, had repeatedly observed and practiced it. . . . Did you ever observe how *healthy* a successful man appears? How calm and relaxed they appear? I once experienced that success feeling. I was knocking down in sales salary and expense a substantial income (during the depression too). I believe most ills result from tension, fear, etc. The better I felt the more I sold, and the more I sold the better I felt."

Similar expressions from other men who have been engaged in sales work seem to bear out that there are certain mental fundamentals of success. If these mental conditions are RIGHT, and given even a fair amount of intelligence plus the will to work, results are sure to follow. First, you must believe in what you are selling and what you are doing. You must be convinced that when you trade your securities for another man's money that he is going to be better off with what you have sold him than with the cash. One of the reasons for the lack of business in the securities markets today is due to the inertia of those who are engaged in the investment business. They have been sitting tight so long they find it hard to bring themselves around to positive thinking and action. Most of our financial leaders do not indicate by their public utterances that they still believe wholeheartedly in the future of private enterprise in this country. That is what has happened to sales organizations in many cases—they don't believe in themselves, their merchandise, or their country any more. BUSINESS HAS TO BE DEAD UNDER SUCH CONDITIONS.

The second mental requirement is what our friend the Captain meant when he said, "The better I felt the more I sold, and the more I sold the better I felt." You have to "get rolling." You have to get the feel of selling. One sale brings on another. You acquire momentum as you go along. That is the reason sales managers who know their business like to have one or two "lead horses" on their team. When the also rans see that some one else is doing it they want to try it too. If you have an office full of chair warmers who sit around and bemoan the fact that business is slow, and they keep it up from day to day, how in the world can even the best man disregard such an environment and go out and do something constructive? Quite frankly, I am sure that it is better to have even one or two men in a sales organization, who have momentum, confidence, good cheer, the will to work intelligently and a healthy outlook on life, than to have several dozen men who are discouraged and disheartened.

The third mental requirement is not to be discouraged. If you believe in what you are selling, and if you know that you want to do a good job for your fellow man, YOU ARE GOING TO KEEP ON TRYING UNTIL YOU SUCCEED. The man who believes in his mission, his business, his own integrity and sense of fair play, DOESN'T BECOME DISCOURAGED. You may also have noticed that the fellow who keeps on going is the one who also does not take himself too seriously. Lucky is the man who can laugh at himself . . . in every walk of life this saving sense of balance can make a man's days on this planet much more livable.

Yes, there is such a thing as brain waves. You've got to think RIGHT if you want to do RIGHT. You've got to believe in success before you can have success. You've got to smile inside before it will show on the outside. Then others will see it too and they will believe it . . . and that is the secret of success in selling and almost everything else.

Correction

In the "Financial Chronicle" of Oct. 7 it was reported that Edward H. Morris and Frederick C. H. Wessel, Jr., were to become active in a new firm to be known as Morris & Wessel. We have been informed that this was in error, that the firm of Stirling, Morris & Bousman has not been dissolved, that Messrs. Morris and Wessel are still members of it, and the new firm was formed for a special temporary purpose only and will be dissolved after it has been attained.

Belgian Bonds Drawn For Redemption

J. P. Morgan & Co. Inc. and Guaranty Trust Company of New York, as Sinking Fund Administrators, are notifying holders of Kingdom of Belgium External Loan 30-Year Sinking Fund 7% Gold Bonds due June 1, 1955, that, through the sinking fund, $230,500 principal amount of these bonds have been drawn by lot for redemption on Dec. 1, 1948, at 107½%. Subject to the provisions of Executive Order No. 8389, as amended, the drawn bonds will be paid at the office of J. P. Morgan & Co. Inc., or at the principal office of Guaranty Trust Company of New York.

Menace of Government in Grain Market

By RICHARD F. UHLMANN*
President, Uhlmann Grain Co.
President, Chicago Board of Trade

Leading grain authority attacks record of government intervention in grain market and its competition with private business. Lays serious fluctuating prices to government buying, and says government's activity in market has predominant bearing on prices. Criticizes parity price support program as set at too high levels, and upholds functions of grain exchanges.

All during the war, and ever since, our agricultural production has been at unparalleled heights, with the exception of last year, when there was a failure crop in corn. We were thus able to ship record quantities of food abroad without impairment to our own economy. During this whole period there were jobs for all who wanted work, and at present about 61 million people are gainfully employed. Generally with these two conditions existing, it leads to a high level of confidence, and we should enjoy widespread prosperity and an era of good business.

Richard F. Uhlmann

Strangely, there has been apprehension for two or three years that all was not well, and that inflation and boom might be followed by bust and industrial depression. It was about a year ago that the Honorable Joseph P. Kennedy told the Congress: "The American people, once described as a magnificent spectacle of human happiness, are today confused and restless." I dare repeat these things, because in a free society no public problem is too secret nor too dangerous for public discussion and understanding.

It is, however, a paradox that in this great country of ours, with the standard of living ten times greater than in the poorer half of the world, there should be this lack of confidence. Meanwhile, we find confusion and restlessness enveloped in a mass of economic anxiety, possibly the result of fear which has gotten out of control. Human beings are so constituted that if they are forewarned of certain dangers, the shock is never quite so great when it occurs. We find that panic seldom develops, no matter how serious an event, if there is some advance knowledge of what is to come so that we are able to cope with the situation when it strikes. In such cases a loss of mental balance can neither start nor spread. The government is cognizant of this in certain fields. The Weather Bureau for years has been in the habit of sounding storm warnings as far ahead as possible. Even as this paper was being prepared, a second hurricane had been forecast for New Orleans, but yet the people were calm because they had been told that there was possible danger ahead. We have seen that even animals, lacking wisdom, react in much the same manner. Research has shown that under repeated application of shock differently applied, an animal may become crazed or be only mentally annoyed.

A Chain of Official Emergencies

It is no wonder that the American people are today confused and restless. They have endured for many years a constant chain of official emergencies, one after the other. Little wonder that so many people are suffering from some mental strain, the same as those unfortunate experimental animals. It would, indeed, be intelligent for purposes of mental health, as well as for economic protection, to catch our balance before it is too late.

It is only fair to say that the last war had much to do with our economic disorders. Within a comparatively short space of time we became burdened by an indebtedness, which was equivalent to the accumulation of wealth of all the Americans that had gone before us. This alone is a bad state of affairs, because the Federal Government, as such, has no income-producing property. The property is in the 48 states, and, under our free enterprise system, is owned by the 145 million people in this country. There were times when nearly every week a new bureau blossomed forth in Washington by executive order. I venture to say that not even the most learned legislator can name the alphabetical agencies that now govern us. The year before the war we had less than 1 million employees. Now we have 2 million, and federal employees are increasing at the rate of 500 per day. Without free enterprise we can have only a government by state socialism. There is no alternative. This system can be menaced or destroyed in one of three ways: First, by excessive and exorbitant taxation; second, by senseless and unnecessary regimentation; third, by government competition with private business. With a strong and vigorous private enterprise system, we can stand a heavy burden of taxation. We can even stand intelligent and reasonable regulation, but we cannot stand government competition. This will quickly destroy the free enterprise system.

Government in Grain Business

It may be interesting, therefore, to inquire why the government entered the grain business to compete with its citizens, particularly since private interests had always done an extremely good job in handling their affairs. I might say that until 1929, there was never any government interference and very few controls. There were no subsidies paid to the farmer, and while he was left entirely to his own resources, in the main he did very well for himself. It is true that we had agricultural depressions in the past, and for example, in 1894, wheat values declined sharply to about 45c per bushel, which was a ruinous price to the farmer, although he did not suffer any more than wheat farmers in many other parts of the world. As a result land was neglected, acreages were reduced, and gradually the accumulated stocks diminished. Nevertheless, prices for a long time did not recover much above 60c a bushel, and then followed the short crop of 1897 on a small acreage. September wheat, which at the start sold at 62c a bushel, was followed by an advance to $1.75 the following Spring. From that time on until the First World War, or for a period of sixteen years price levels were entirely satisfactory to producers; in fact to such an extent that acreages were continually increased, and our export markets improved. Surely, this would not have been the case had farmers not been able to produce profitably. We must, therefore, conclude that raising wheat brought them satisfactory returns.

In 1929, we had our first real taste of government in business when the Farm Board began its operations. Canada that year exported 407 million bushels of wheat, which was a record up to that time, and ever since she has been our keenest competitor. However, it was the high prices that prevailed during the First World War that brought about greatly expanded acreages, not only in Canada, but also in Australia and in the Argentine, so that since that time we have not had the export outlets except for the past few years when the European demands have been so great.

Government vs. Private Transactions

One must resolve for himself whether in handling these big transactions governments can work more efficiently than those who have spent a lifetime in the business. The answer is quite obvious if we study the facts. First of all, a country like the United States, with its tremendous resources, has greater difficulty in buying for the reason that its operations are generally so extensive that it has more than the usual influence on markets. Very often, government purchases of 5 million bushels have more effect than if 20 million bushels were handled by the private trade. This was best brought out last year when the Commodity Credit Corporation purchased such tremendous quantities of grain for shipment abroad. In the three-week period, ended Oct. 20, 1947, they acquired 52 million bushels wheat, or more than was shipped annually during all but one of the war years. This in my opinion was responsible for the 25c per bushel upturn in the market at that time when men in high office were accusing speculators of gambling in grain. I have always maintained in our industry that it is not possible for any one man, or any one agency to know all the answers. Surely it is better that the business is safeguarded when thousands of individual firms are operating at their own risk, each coming to its own decision, rather than to have one organization, or one entity, trying to figure out the time when it is proper to buy or when we should enlarge our export operations.

The government's activity in the market last season had a tremendous bearing on prices. We raised the largest wheat crop in history; about 300 million bushels remained on the farms and was used for seed or feed. The balance moved to market, but for every two cars that came forward, the Federal agencies bought one. We exported nearly 500 million bushels wheat and flour. Just think what a quantity of grain that is: It is more than the combined annual production of Argentina and Australia—our two big competitors. It is 130 million bushels more than will be raised in Canada this year, a country which ordinarily exports much more wheat than we do. Looking at it another way, 500 million bushels is as much wheat as is consumed each year by every man, woman and child in this country for bread and cereals. It is also five times as great as our

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*An address by Mr. Uhlmann at annual meeting of Grain & Feed Dealers National Association, Chicago, Ill., Sept. 30, 1948.

No Early Drop From Present Business Levels: Hoadley

Chicago Reserve Bank Economist tells American Trade Association Executives at Chicago, however, that there are unmistakable signs of weakness that may indicate a downward turn later next year.

Speaking on Oct. 4 at the Annual Meeting of the American Trade Association Executives, an organization whose membership is comprised of more than one thousand executives of the nation's trade association, Walter E. Hoadley, Jr., Business Economist of the Federal Reserve Bank of Chicago, pictured the business outlook as continuing at its present level for at least a year, despite "unmistakable signs of weakness."

Walter E. Hoadley, Jr.

"Prospects for continued high levels of general business and employment during the remainder of this year and well into 1949 remain favorable, Mr. Hoadley stated. "Strong inflationary pressures persist from stepped-up government expenditures for foreign aid and defense plus an unabated willingness and ability of most consumers and business firms to spend, although with marked selectivity toward goods and services having the greatest price and quality appeal. Equally apparent, however, are unmistakable signs of weakness, arising from some initial slowing up in the over-all demand for "heavy" goods, mounting consumer resistance to particular products, and numerous instances of market saturation with goods. Because of these 'soft spots' and the conditions underlying them, many business observers now anticipate a moderate general business downturn next year."

Continuing his survey Mr. Hoadley remarked further:

"No prudent business executive can fail to recognize the eventual adverse implications of more than three postwar years of record American inflation. There is little reason to believe that present levels of business are stable and enduring. Yet, no broad business downturn seems imminent because of the apparent underlying strength of prevailing economic and political forces.

"Business fears of current and forthcoming 'readjustment' are not generally shared by the public. Consumers now evidence only minor hope of sharply lower prices during the months immediately ahead, and therefore see little point to indefinite postponement of desired purchases—thus constituting a major sustaining force. A dangerous attitude of economic complacency rooted in broad reliance upon government, moreover, seems to be growing in this country, no doubt attributable to the now long record of huge government spending as a key element giving support to employment and income.

"The actual course of business and employment during the next six to nine months very likely will be determined by developments in four general economic and political areas: (1) government fiscal position, including expenditures, particularly for overseas rehabilitation and defense, and tax receipts, (2) farm prices, (3) credit restraint, and (4) business expenditures for plant and equipment. Differences in the business outlook as seen by economists and others at the present time almost invariably can be traced to conflicting viewpoints as to the degree of strength or weakness to be ascribed to each of these four points.

"While there is rather wide agreement that government expenditures will rise further over the next year, there is much less uniformity in opinion as to the extent of further probable declines in agricultural prices and income, and particularly the effect thereon of the government price support program. How much tighter credit conditions may become is a matter of widespread speculation, with increasing recognition, however, that further credit restraint can and may prove to be a dominant anti-inflationary force in coming months. Increasing reports of some slackening in industrial construction and allied equipment outlays are being publicized, leading many to conclude that the peak in the postwar durable goods "boom" has been reached and a steady decline is in prospect next year. Heavy expansion programs of utilities, the need for cost reducing machinery, and competitive conditions, however, point to further large-scale plant and equipment projects.

"While the period ahead promises to be one of continued good general business, it will take more work by all concerned to achieve satisfactory results in all but the remaining fields of critically short supply—and in these production bottlenecks no doubt will limit sales and earnings. Increased competition for the consumer's dollar can be expected to mount, with some prospects that essential nonfood items may gain at the expense of other goods and services because of agricultural commodity price declines. Consumer resistance to luxuries and further saturation of markets as production catches up with demand backlogs suggest more scattered readjustments in numerous individual business lines.

"Business and the nation will be particularly responsive to any (1) unexpected development leading to a marked rise or fall in overseas or defense expenditures, and (2) lessened availability of credit. It now seems too late in this postwar inflationary period to avoid some businesses and individuals getting 'hurt,' but there is still time to minimize the impact of coming readjustments. Above all, it is important to avoid using 'depression' tactics to sustain business at the peak of this boom."

Firm Name Now Is Cin. Mun. Bond Corp.

CINCINNATI, OHIO—The firm name of Katz & O'Brien, Inc., Carew Tower, has been changed to the Cincinnati Municipal Bond Corporation. The firm continues to act as underwriters and distributors of state, municipal and revenue bonds.

Officers are Arthur V. Katz, President and Treasurer, and Francis J. Lynch, Vice-President. Mr. Lynch, who has recently joined the firm, was previously a Vice-President of Kline, Lynch & Co., Inc.

Edgar W. Leonard Dead

Edgar Welch Leonard, partner in Moore, Leonard & Lynch, died at the age of sixty-seven after an illness of a few weeks. Mr. Leonard was resident partner of the firm's New York office.

The New Pattern of International Trade

By A. N. GENTES*

Vice-President, Guaranty Trust Company of New York

Mr. Gentes reviews war's disintegrating effects on international trade, and sees hard fight ahead to get world back to a multilateral trading basis. Holds present world disruptions make necessary exchange restrictions in various countries as protection against flight of capital. Advocates greater imports into U. S. and explains ECA requirements regarding exchange guarantees. Concludes obstructive tactics of Russia have hindered advancement of world trade.

In my discussion on the pattern of international trade, I would like to comment briefly on our own export trade in this country and some of the factors that will be necessary to get the world back on a sound trading basis. First, let me say that most of us, I believe, are in agreement that a substantial international trade is necessary for the support of our own economy in this country, for the improvement of the standards of living of countries abroad and for world peace or peace throughout the world.

A. N. Gentes

During the period of the war, many changes occurred in the economy of nations—changes in politics, finances, monetary and financial policy, commerce and transportation, all of which will have a very material effect on our own export business and on international trade for many years to come.

The war also brought about an awakening of peoples in various parts of the world, and I have in mind the disturbances in India, China, French Indo-China, Netherlands East Indies, Burma and the Arab World, which have seriously disrupted the flow of business in and out of those countries.

Here I might mention particularly the Netherlands East Indies, or what is now known as the Republic of Indonesia, which was an extremely large source of raw material for all parts of the world. The islands, as we may recall, were large shippers of rubber, tin, oil, palm oil, copra, quinine, pepper—to mention the important products. These products were sold to all parts of the world, but were particularly important to the economy of Western Europe, and more particularly to the economy of Holland and England.

The movement of these products to world markets, which is now practically stopped, would have a tremendously important effect on the whole world recovery program. The effects of these disruptions in various countries must be taken into consideration by American exporters when endeavoring to determine future policies.

Disintegration of International Trade

World War II, the most disastrous of all wars, brought in its wake a disintegration of international trade and we have a long, hard fight ahead of us to get the world back on a multilateral trading basis comparable to that which existed in the prewar period.

Our exports out of this country in 1947 amounted to about $14½ billion, which is the highest figure we have ever had in this country and which probably will be the highest that we will have for a number of years to come.

The decrease in the export of manufactured products in 1948 came as no great surprise to those experienced in international trade. For, while it was realized that a sound, substantial export business must be done out of this country to maintain our economy here and our important position in world affairs, the economic weakness of continuing to export to countries of the world beyond the capacity of those countries to get the dollar exchange was also recognized.

Were it not for the fact that each country of the world has its own currency, banking and monetary systems, the matter of international trade and international financing would be a great deal less complex.

Normally, however, sellers of goods and services in the United States desire payment in United States dollars or a currency freely convertible in the exchange market for United States dollars. For example, exporters in the United States are unwilling as a general rule to accept payment in pounds or francs or gilders or pesos or other foreign currencies which, if there is any chance that those currencies will become blocked within the foreign country, are not subject to free sale in a free and open market.

Experience is a hard teacher and many exporters who, for one reason or another across the years, have been compelled or have voluntarily taken payment in local currency, have suffered severe losses when they endeavored to convert those currencies back into dollars.

Export Terms of Sale

Before commenting further on our own export sales, it may be of interest to mention the usual terms of sale accorded by American exporters to buyers abroad. The greater part of our sales out of this country are financed either on the basis of letters of credit opened by the buyer abroad in favor of the seller in this country or on the basis of dollar drafts drawn by the seller here on the buyer abroad.

In the case of letters of credit, no credit risk is involved, as the shipper obtains his funds in this country upon presentation of documents to the bank opening the credit. Documents, of course, must be drawn in strict conformity with the terms of the credit and within the maturity date specified on the credit. The risk of obtaining dollar exchange is also eliminated.

In the case of dollar drafts, however, the credit risk and the risk of getting dollars back to the States remains with the shipper until eventual return of the funds in dollars to the United States.

Naturally, in times of exchange stress abroad or when conditions are unfavorable, sellers are inclined to ask for letter of credit financing and it is the safest form, or perhaps I might say one of the safest forms of financing if it can be arranged.

Unfortunately, when dollar exchange conditions are tight within a country, it is difficult for exporters to obtain a letter of credit from abroad and they are forced to sell on a dollar draft basis or forego the business.

Effects of Dollar Shortage

It cannot be said that all countries of the world made discreet use of their free gold and dollar exchange balances that were available to them at the end of World War II. They were estimated at about $20 billion. In many cases, in the postwar period, exchange was utilized or authorized for the purchase of nonessential or luxury goods and for purposes other than rehabilitation and stabilization of internal economy.

It is estimated that the Latin American area had about $5 billion at its disposal at the conclusion of World War II, and that total had been utilized to such a great extent in the past few years that many of these countries are now in the position of being unable to purchase even essential merchandise and machinery except in limited quantities.

In a number of countries in the Latin American area, American exporters who sold in good faith on a dollar draft basis now find the return of dollars seriously delayed by reason of inability on the part of the foreign country to provide the dollars.

It has been estimated that the Argentine has committed itself for $300,000,000 to $500,000,000, for which they must eventually, somewhere, find dollar exchange.

In Brazil, it is estimated that they are committed for approximately $250,000,000, for which they must eventually find dollar exchange.

A report as of June 30 of this year on collections outstanding in Brazil showed a total outstanding in collections alone of $205,000,000. Undoubtedly a good part of that amount was past due. A substantial amount of dollar drafts is now backed up in practically all of the Latin American countries including, of course, Argentina and Brazil, which perhaps have the larger amounts involved.

As a consequence, American exporters have curtailed shipments and probably will continue to curtail shipments until the situation rights itself. The desire on the part of foreign buyers to purchase our merchandise still exists, but the marked shortage of dollar exchange in practically all countries of the world has forced a further screening in those countries of imports from the United States and the imposition of more stringent foreign exchange restrictions.

Some Exchange Restrictions Essential

While in some quarters we are prone to criticize foreign exchange restrictions, and while undoubtedly certain abuses do exist in certain countries, present world disruptions make it necessary that exchange restrictions be in effect in various countries as a protection against the flight of capital, exchange depreciation and depreciation of gold reserves, all of which have an inflationary effect on the foreign countries' economy.

Furthermore, if restrictions are properly handled, they provide for the conservation of dollar balances within the foreign country for a fair and orderly allotment of available exchange, and they assure the foreign country of exchange for essential merchandise or essential imports.

It is not likely that any one trading nation of importance in the world today can long maintain its position in world markets without having exchange restrictions of one kind or another, unless they have a substantial gold

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*Transcript of address by Mr. Gentes before monthly meeting of the Export Advertising Association, Inc., New York City, Sept. 29, 1948.

Canadian Securities

By WILLIAM J. McKAY

Although from the Canadian angle, the results of the recent discussions with Sir Stafford Cripps were frankly disappointing, nevertheless the Dominion's future economic course is now more clearly defined. Nothing less than a complete reversal of the present British economic policy would suffice to arrest the natural tendency towards still closer U. S.-Canadian economic collaboration. It is now reasonably clear that Britain has pinned her hopes for recovery on intensified industrial development within the United Kingdom sustained by the resources of the Sterling area. Even with the reestablishment on a working basis of the time-honored U. S.-British-Canadian exchange triangle, Canada would still play only a minor role in the British economic scheme.

In any event Canada has now reached the stage of economic adulthood. It is only appropriate therefore that the Dominion should now map its own economic course. However the current British attitude to a large degree rules out Canadian volition in the matter, and closer economic association with this country is not only the logical course but one that is virtually dictated. This by no means implies a severance of the strongly sympathetic Canadian tie with the Mother Country. On the contrary a natural working partnership between this country and Canada should serve to create a more practical and realistic understanding between the British Commonwealth and the North American continent. In this event Canada would be in an ideal position to fulfill its logical role as interpreter of the British viewpoint.

With the implementation of a comprehensive U. S.-Canadian economic agreement the Dominion's current perturbation concerning U. S. exchange reserves would be largely dissipated. Consequently it would then be possible to conceive a bolder approach to the solution of the allied problems of the unsatisfactory "free" Canadian dollar market and Canada's indebtedness to this country in the shape of the large volume of Dominion internal bonds held by U. S. investors. At the present time the means of repatriation of U. S. investments in Canada are not only inadequate but they also give rise to considerable confusion. In the cases where it is possible to repatriate, the narrow state of the free market often exposes the seller of free funds to indeterminable loss and difficulty of execution. Holders of unregistered stocks and bonds are in an even more embarrassing position, and in the event of liquidation are obliged to sell at the various "arbitrage" rates which have little relation to the price levels prevailing on the Canadian market. The situation of the holders of Dominion internal bonds is also highly confusing. Those who took advantage of the privilege of registration with the Canadian Foreign Exchange Control Board, when it existed, can sell their bonds in Canada and then liquidate the proceeds on the free market. On the other hand those who failed to take advantage of this procedure, together with prewar holders, have recourse in the event of sale only to the exceedingly narrow market which exists here for this catagory of bonds.

Within the scope of a U. S.-Canadian general economic agreement, adequate arrangements for the free flow of funds across the border in both directions is of vital concern to both countries. It is possible therefore that consideration will then be given to the termination of all Canadian exchange restrictions and the establishment of one rate of exchange which would be applicable for financial as well as commercial transactions. In this way the value of U. S. investments in Canada would be clearly established, and U. S. capital with freedom of repatriation would more readily avail itself of the many investment opportunities north of the border.

During the week there was an intensification of the demand for short-term high-grade external bonds but offerings continued in scant supply. The internal bond section registered little change and the failure to respond to the recent firmness of free funds reflects the absence of actual investor demand. In view of the four point premium on registered as against unrecorded bonds there is the possibility of switching of one category against the other, which would give rise to a supply of free funds and thus tend to depress the market for unregistered bonds. Stocks in general displayed somewhat firmer tone with the industrial and base metal issues in fair demand. On the other hand Western Oils and the golds lost some of their recent gains.

W. M. Robinson To Be J. C. Bradford Partner

NASHVILLE, TENN. — Walter McLaren Robinson will on Oct. 21 becomes a partner in J. C. Bradford & Co., 418 Union Street, members of the New York Stock Exchange. Mr. Robinson was formerly an officer of the Nashville Securities Corp. which recently merged with J. C. Bradford & Co.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Louis J. Groch will retire from partnership in Bennett, Smith & Co., on Oct. 15th.

Interest of the late Benjamin D. Mosser in Clark, Dodge & Co. ceased Sept. 30.

Still Only a Dream

"It was my dream during the war years, when we were all united against the Hitler onslaught, that after the war Russia, whatever her ideology, should become one of the three or four supreme factors in preserving peace; that she would receive all the honor which the valor, fortitude and patriotism of her people have won; that she would help to bring about that golden age on which all our hearts are set and which President Roosevelt heralded with his declaration of the Four Freedoms.


Winston Churchill

"I hoped she would have access to unfrozen waters in every ocean, guaranteed by the world organization of which she would be a leading member; that she would have the freest access to raw materials of every kind and that the Russians would be everywhere received as brothers in the human family.

"That still remains the aim and ideal. If it has not been attained, if on the contrary, enormous barriers have been erected against it, it is the Soviet Government that has set them up and is fortifying them every day over ever larger areas." — Winston Churchill.

It would doubtless be a much better world if such dreams could be made to come true.

But heretofore there have always been Kremlins or their counterparts to prevent the consummation.

We should be wise not to count on the millenium "in our time."

C.P.R. Outlines Canadian Freight Rate Puzzle

Says Canadian Pacific points out its anomalous position of being in competition with the larger government-owned Canadian National Railways. Says it alone must carry the ball for higher freight rates.

According to the Canadian Pacific Railway, American investors may find more than a passing interest in some vital matters affecting the earning capacity, if not the very future life of that $1,650,000,000 transportation empire, the Canadian Pacific.

Privately-owned, Canadian Pacific is in the anomalous position of being in competition with the largest government-owned Canadian National Railways.

Operating officers of the Canadian National share Canadian Pacific's firm conviction that those using railroad services should pay at rates permitting a profitable return, but they have been told, in effect, at least, to go run their railroad and leave rate-making to the government.

This leaves Canadian Pacific carrying the ball in the continuing struggle for higher freight rates. The C. P. R., after a 17-cents-an-hour pay boost granted to 16 rail unions, last July, but made retroactive to March 1, immediately asked the government for a further advance of 20% in freight rates. They stated flatly that without such a rate increase, at least 15% on an immediate, and if necessary, on an interim basis, C. P. could easily face bankruptcy.

It is perhaps difficult to realize that a company whose ordinary stock has been regarded abroad for more than six decades as a reliable index of Canadian economic conditions can be brought in such a short time to the thin and ragged edge.

Yet Canadian Pacific officials have filed figures with the Board of Transport Commissioners and the Canadian cabinet proving that the July wage award, latest in a round of pay boosts, add another $32,000,000 to 1948 working expenses.

C. P., in 1947, showed a net of only $22,892,189 from gross earnings (railway) of $318,585,919. Its "other income," from outside investments notably Consolidated Mining & Smelting, and its operation of hotels and steamships, totalled another $24,783,927, but after paying fixed charges and dividends only $20,636,260 was transferred to profit and loss account. This is more than $10 million shy of the additional 1948 wage burden. Also, with Canada's wartime price controls a thing of the distant past, material costs have skyrocketed.

Canadian railways last March were granted an increase of 21% in freight rates, but the boost specifically exempted grain and grain products moved within western Canada whether for domestic consumption or export. As Canadian Pacific is heavy involved in western trackage, the raise, for earning purposes, actually works out at closer to 16% across the board.

Even this slight raise, which is roughly a third of rate increases granted since 1939 to U. S. railroads in the eastern region, and the first boost allowed to Canadian rails since 1922, is still under heavy fire from premiers of seven Canadian provinces, except Ontario and Quebec. The premiers contend that Canada's whole basic freight rate structure is unsound, that it favors Ontario and Quebec at the expense of the western and maritime provinces. They want the Ottawa government to set up a royal commission to examine the whole question of freight rates, setting aside meanwhile any demands by the railways for increased rates. Recently they succeeded in having the transport board, which functions like America's ICC, set over until Jan. 11 the hearing on the railways' application for a further 20% rate advance.

C. P. R. says this delay alone represents at least a $16,000,000 loss.

Canadian Pacific's 1947 report showed 13,400,000 shares of ordinary stock valued at $335,000,000. Of this, American investors held 39.19%, as compared with 13.58% held by Canadian investors. Since then, however, there has been much activity in the stock on the New York board, and it was not so long ago that C. P. touched $19 on the news of extensive oil developments on its lands in Alberta. Undoubtedly American holdings of the stock have increased since the last report.

Canadian Pacific, it must be remembered, is still a transportation company and no returns from "outside" investments, however lucrative, will compensate for continuing losses accruing from unprofitable operation of its 21,000-mile railway empire.

Munc. Bondwomen's Club Formed in N. Y.

Formation of the Municipal Bondwomen's Club of New York is announced by Sybil Gordon, President. The club, according to its constitution and by-laws, was organized to encourage closer association among the women engaged in the municipal bond business.


Sybil Gordon

In addition to Miss Gordon who is associated with Bear, Stearns & Co., other charter members and officers are Mary Ciarlo of "The Bond Buyer," Vice-President; Marilyn Madden of Union Securities Corporation, Secretary, and Vera M. Smith of Shields & Co., Treasurer; Board of Governors being Marion Ford of Glore, Forgan & Co.; Cathleen Morin of Smith, Barney & Co.; Marion St. Pierre of Heller, Bruce & Co., and Anne C. Van Vechten of Braun, Bosworth & Co., Inc. Officers and the Board of Governors have been at work for several weeks and the club now has 26 members.

An invitation is extended to women who are active in the municipal bond business in a senior capacity to become members of the group. Membership application blanks may be procured from Marilyn Madden, Secretary.

Walsh to Represent Television Shares Co.

Reginald L. Walsh has been appointed wholesale representative of Television Shares Management Co., principal underwriter for Television Fund, Inc., in New England and upper New York state. Mr. Walsh has had a long experience in the wholesaling of investment company shares. Previously he was with Calvin Bullock and Hugh W. Long & Co.

Phila. Securities Ass'n To Hold Meeting

PHILADELPHIA, PA. — The Philadelphia Securities Association will hold a meeting at 4:15 p.m. Nov. 15 at the Provident Trust Co. with Harld H. Young, Eastman, Dillon & Co. speaknig on utilities.

Lee Higginson Corp. Elects

At a meeting of the Board of Directors of Lee Higginson Corp., 40 Wall Street, New York City, N. Penrose Hallowell, former President, was elected Chairman of the board, and Charles E. Cotting, former Vice-President and Treasurer, was elected President and Treasurer.

Says Industry's No. 1 Problem Is to Earn Enough For Capital Replacement

In talk to Philadelphia Financial Analysts, J. Howard Pew cites rise of 178% in replacement value of present facilities.

J. Howard Pew, former President and a Director of Sun Oil Company, told the Financial Analysts of Philadelphia at a luncheon meeting on Oct. 7 that American industry's No. 1 problem is to earn enough money to assure replacement of its plant and equipment at the high cost of present-day construction.

J. Howard Pew

Citing actual figures to show that at Jan. 1, 1948, construction costs, the reproduction of all industrial industrial plant and equipment in the United States would cost 178% of the original investment in present facilities, Mr. Pew declared that only industrial profits can make up this difference between actual replacement costs and allowable depreciation reserves.

Pointing out that industry's continuing ability to serve America's needs is threatened by the disastrous effects of inflation, resulting from unsound monetary policies, Mr. Pew declared that "industry will commit economic suicide unless it can create within its operations the means to insure its reproduction."

Drawing a sharp parallel between our present economic situation and the fate of British industry, which lived on capital between the wars, Mr. Pew stated that, "What has happened in England can happen here, if the American people refuse to permit industry to earn such profits as may accrue from the free functioning of competition and the laws of supply and demand."

"Upon the solution of industry's replacement problems," he said, "depends the survival of America's living standards."

Sees Some Soft Spots in Business Picture

Dr. Emerson P. Schmidt, Economic Research Director of Chamber of Commerce of the United States, reports while immediate outlook for capacity production is good there is some decline in optimism for long-term future.

In an abstract of a report to the Board of Directors of the Chamber of Commerce of the United States at its September meeting, Dr. Emerson P. Schmidt, the Director of its Economic Research Department, sees a growing pessimism regarding long-term business, despite the immediate favorable outlook. Says Dr. Schmidt in his report:

Dr. E. P. Schmidt

"The immediate outlook for ceiling or capacity production and employment is very strong. Nevertheless, in the last 60 days there has been something of a decline in optimism for a long-term future. Whether this pessimism is traceable to the clouded international outlook, or to the stock market doldrums, or to some other factors, is hard to determine. If the stock market is to blame, we need an explanation for its sluggishness.

"Business confidence may be defined as the conviction that people generally are spending their incomes promptly, are not hoarding and will not hoard income. Production always finances its own consumption provided competition governs prices and no substantial amount of income is being hoarded.

"While profits are substantial, business concerns as a whole continue to borrow additional funds so that, on net balance, investment is exceeding savings and no income is being hoarded.

"New investment in manufacturing plants and equipment has gone forward at an unprecedented rate in the last two years and shows some signs of declining in the next year or so.

"There are abundant opportunities for new investment in public utilities, service establishments including many varieties of commercial activities, hotel accommodations, etc.

"We may surpass the previous construction record in house building this year. We are today completing a new dwelling unit every 34 seconds around the clock every day in the week.

"If, as investment in manufacturing facilities begins to shrink, the investment funds can be diverted into housing and service establishments, prosperity is certain to continue and every effort should be made to exploit new investment opportunities as previous investment outlets begin to taper off.

"Our capital investment per gainfully occupied person is still below our pre-depression ratio. Since the beginning of the depression we have added the equivalent of two Canadas in population.

"Many of our shortages and some of our high prices are due to bottlenecks in production facilities which have not yet been eliminated.

"From the beginning of the depression until about two years ago, we probably consumed capital on net balance. In the last few years we have had the most vigorous capital expansion in our history.

"Whole new industries have sprung up. Thousands of new products have been developed. Regional relocation of people and industry all require great quantities of new capital investment.

"We have experienced a veritable revolution in agricultural technology. Farm electrification means billions of dollars of household and farm-operating appliances, tools, and implements. The new hay maker, for example, considerably more efficient than the hay baler, completely eliminates all hand operations and human handling of hay from cutting to the barn mow.

Revolutionary Developments

"All of these developments provide prodigious outlets for investment, emphasizing the importance of diverting a substantial portion of the national income to saving so as to finance this capital formation. Similar revolutionary developments are taking place in many manufacturing processes and to some extent in distribution and servicing.

"We are still to a degree the beneficiaries of momentum of the depression and war-created shortages and the tripling of our money supply. This redundant money is still working its way into our cost-price structure, pulling up demand.

"In those industries in which prices have been kept artificially low, such as farm implements, automobiles, and some metals, the 'gray' market continues to persist. In the case of lead and aluminum, in many markets the price of scrap metal actually exceeds the price of brand new ingots.

Some Soft Spots

"In spite of these bullish factors, more soft spots are beginning to appear. Price declining grains have reached or approached the artificial government supported price levels. The futures market in most grains is lower by substantial amounts than the cash market. Some coal mines are operating on a short work-week. The same is true of some textile mills.

"In the case of meat, the prospects for lower prices are still uncertain. The hog-corn ratio today is highly favorable to the breeding of more hog stock. For every increase in our hog population by six, one young sow must be kept for breeding purposes, thereby actually shrinking for the time being the production of pork.

"A year from now, hog prices will be relatively lower. In the case of beef, the production cycle may delay lower prices for a year or two longer. Some experts believe that both pork and beef prices have hit their peaks.

"Some of the foregoing soft spots are reflected in the new orders and inventories. For example, in manufacturing, the new orders of non-durable goods in July were slightly below a year ago but inventories were up 17%. In the case of durable goods, new orders were up 16% and inventories were up only 7%.

"Clearly, some of the soft goods lines are in for some trouble or readjustment and this ought to be reflected in more favorable consumer prices, providing we can avoid a fourth round of wage increases that would simply pay out more purchasing power, which would tend to raise prices or at least prevent them from settling down.

Tighter Money

"Due to the unrest created by rising prices, the special session of the 80th Congress provided a number of anti-inflation steps which are beginning to make themselves felt.

"The new consumer credit contools will choke off part of the excessive demand. The increase in the reserve requirements of commercial banks will slow down loan and credit expansion. The Federal Government's upward adjustment of the interest rate on short-term borrowings is being reflected in higher interest charges for private loans.

"These steps constitute the beginnings of what may be an era of tighter money. In the past, very few booms have come to an end except through a growing scarcity of money.

"We now face the difficult task of steering a middle course in our policies so as to check inflation without precipitating contraction. Our goal is abundant job opportunities, high-level output, and reasonable prices. Government having control of fiscal and monetary policies has the greatest responsibility in steering this course."

With Shearson, Hammill

Shearson, Hammill & Co., members of the New York Stock Exchange and other principal stock and commodity exchanges, announces the association with the firm's uptown office of Roger F. P. McMahon, formerly with Jacquin, Bliss & Stanley.

Britain's Views on Bretton Woods Institutions

By PAUL EINZIG

Dr. Einzig notes basis of unfavorable views on International Monetary Fund and World Bank has changed from fear these institutions would be too powerful to complaint they are not powerful enough. Says statutes of institutions are too rigid and Marshall Plan limits sphere of their activity.

LONDON, ENG.—The annual meeting of the International Monetary Fund and the International Bank of Reconstruction gave occasion to a revival of British press criticisms of the two Bretton Woods institutions. Ever since they were conceived in 1944 they were thoroughly unpopular in Britain. Their original unpopularity—especially that of the International Monetary Fund — was due to fears that British monetary and economic policies would be dictated by the United States Government through its direct and indirect influence over the two institutions. It was feared that the Fund would have too much power, that it would be able to prevent Britain from devaluing adequately if and when such devaluation should be found necessary. On the basis of the experience of the last eight months, however, the Fund is now criticized on a totally different ground. The main objection is not that it is too powerful but that it is quite powerless.

Dr. Paul Einzig

There has been so far no confirmation of the original British fears that the Fund might abuse its poyer by vetoing a justified devaluation of the pound—for the simple reason that Britain has no desire to devalue the pound. On the other hand, hopes that the Fund would be able to prevent multiple currency practices have have failed to materialize. France, Italy and a number of other countries cheerfully disregard their undertaking given in the Bretton Woods Agreement to abstain from such practices, and the Fund seems to be unable to do anything about it. It is not known whether the offending member governments have been threatened with expulsion; if so, the threat produced singularly little impression. The payment of premiums on gold is also practiced by some members in violation of their undertaking.

The Fund has, of course, the power of withholding assistance from offending members. But since there is in any case a ban on dollar facilities to countries participating in Marshall aid no pressure can be brought to bear on them by that means. Moreover, since the Fund does not seem to be very helpful in the present crisis, member countries are less afraid of being expelled than the Fund is of losing members.

This brings us to the second point of criticism raised against the Fund—that it has been unhelpful amidst the present difficulties. Last year when the meeting was held in London it was urged from British side that the rule under which a country is not allowed to draw more than 25% of its quota within any one year should be suspended. This was opposed, however, by Mr. Snyder, on the ground that if member countries should be allowed to draw on their facilities in full the Fund's resources would soon become exhausted, long before equilibrium could be restored, and that the Fund would then cease to be of any further use. It was his opinion that the facilities of the Fund should be reserved for comparatively normal periods when they could play a very useful part in balancing temporary deficits.

The British argument is that the resources owned by the Fund are needed **now**, not in several years' time. Even if a full use of the facilities of the weak countries should result in a temporary immobilization of the resources of the Fund, the frozen credits would unfreeze with the return of normal conditions, so that the resources would become once more available for meeting minor gaps. Against this the American argument contends that the Fund's total facilities would be a mere drop in the ocean of the present abnormal dollar requirements.

It is felt in London that the statutes of the Fund, and also those of the Bank, are far too rigid, and should be modified in the light of experience. As it is, both institutions are looked upon as "white elephants." They, and the whole system established at Bretton Woods, stands utterly discredited in the eyes of that section of the British public which takes an interest in such matters. Nor has the report that the Fund has granted facilities to Czechoslovakia and is about to grant facilities to Yugoslavia increased its popularity. It is pointed out that, since the ruling under which Marshall aid countries are not to use their facilities prevents the Fund from assisting Western Europe, its main sphere of activity lies in Eastern Europe, in countries behind the "Iron Curtain." This, it is argued, amounts to indirect financial assistance to the Soviet Union. Just as the Bank for International Settlements became an instrument of financial appeasement before the war, so the Fund seems to be destined, it it suggested, to play a similar role in the present international political tension.

The outcome of the Washington meeting of the Fund and the Bank is awaited with some interest, in the hope that something will be done to ensure that the two institutions should play a more active and more effective part in the present crisis.

Emile Z. Weinberg Now With Bruns, Nordeman

Bruns, Nordeman & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, announce that Emil Z. Weinberg is now associated with them in charge of their public relations department.

Emile Z. Weinberg

Mr. Weinberg, who has 20 years' experience in the securities business, was a public relations counsel prior to joining Bruns, Nordeman. Mr. Weinberg also served from 1941 to 1945 as a district manager for the War Production Board.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Guaranty Trust Company of New York announces the appointment of Alexander H. Gentes as a Vice-President and of John R. Doty as an Assistant Secretary, both in the foreign department of the company's main office. Mr. Gentes has been an officer in the company's foreign department since 1924, serving as Assistant Treasurer until 1929, then as Assistant Manager until 1944, and for the last four years as Second Vice-President. In the Guaranty and in other New York banks with which he was previously associated, he has specialized in foreign credits and other phases of foreign banking. He has written extensively on foreign credit and exchange matters, and has been a speaker on these subjects before numerous groups. He has served as Chairman of the Administrative Committee of the Foreign Credit Interchange Bureau of the National Association of Credit Men, and has been active in other foreign trade organizations. Mr. Doty has been with the company's foreign department since April, 1946, and had previous banking and business experience in New York and Cuba.

* * *

S. Sloan Colt, President of **Bankers Trust Company of New York**, has announced the election of two officers and the promotion of three others. Those named Assistant Vice-Presidents are H. G. Burrowes, formerly a trust officer; F. A. Ritchie, previously Assistant Comptroller, and C. F. Jennings, who had been an Auditor. F. D. Flaherty has been elected to the post of Assistant Treasurer, and D. Mac M. Dickerson has been named Assistant Auditor.

* * *

The story of The Port of New York Authority is the theme of a special display installed on Oct. 9 in the windows of **Colonial Trust Company of New York** at the Avenue of the Americas and 48th Street, it is announced by Arthur S. Kleeman, President of the company. The pictorial exhibit, which extends through 17 windows along the two streets and in the building lobbies, will remain on view for four weeks. "It is a privilege for Colonial Trust Company to present this exhibit," Mr. Kleeman said, "which so clearly depicts the great contributions of The Port of New York Authority to the preeminence of the New York-New Jersey Port District."

Included in the display are pictures of each of the bi-state agency's bridges, tunnels and airports, as well as its seaport in Newark, its grain terminal and union railroad freight terminal. The exhibit also contains enlarged drawings and plans of the two union motor truck terminals now under construction in Manhattan and Newark, and the union bus terminal to be completed by the Authority in 1950 on the entire block between 40th and 41st Streets and Eighth and Ninth Avenues in Manhattan. Port promotion is highlighted through maps and other literature issued to shippers, and data on the Port Authority Trade Promotion offices in New York, Chicago, Washington and Cleveland.

* * *

Paul E. Landon has been elected a trustee of the **South Brooklyn Savings Bank of Brooklyn, N. Y.**, it was announced by D. Irving Mead, President, according to the Brooklyn "Eagle" of Sept. 29.

* * *

The **Steuben Trust Company of Hornell, N. Y.**, received on Sept. 28 the approval by the State Banking Department for a certificate of reduction in the capital stock from $282,000, consisting of 2,640 shares of preferred stock "A" of the par value of $50 each, 1,000 shares of preferred stock "B" of the par value of $50 each, and 1,500 shares of common stock of the par value of $66⅔ each, to $250,000, consisting of 5,000 shares of the par value of $50 each. Announcement of this was made by the Banking Department on Oct. 1.

* * *

The resignation of Laurence F. Wittemore as President of the **Federal Reserve Bank of Boston** was announced by the directors of the Bank on Oct. 4. Mr. Wittemore resigns to devote his entire time to his new post, President of the New York, New Haven & Hartford RR. In the Boston "Herald" of Oct. 5 it was stated that Mr. Wittemore, a veteran railroad man who served many years with the Boston & Maine RR., was chosen to head the reorganized New Haven road Aug. 31, after control of the railroad was acquired by a group headed by Frederic C. Dumaine, 82-year-old Groton financier. He succeeded Howard S. Palmer, resigned. The same paper also stated that in making the announcement Albert M. Creighton, Chairman of the board of the Reserve Bank, said that the acceptance of Mr. Wittemore's resignation was taken "with regret" and that his group now has under consideration the election of a successor to Mr. Wittemore. Pending such election the chief executive officer of the bank will be William Willett, First Vice-President.

* * *

Rollin B. Fisher, Vice-President and a trust specialist of both the **First National Bank** and the **Old Colony Trust Co. of Boston**, died on Oct. 4. The Boston "Herald" states that Mr. Fisher was associated with the two institutions for nearly 50 years. At his death he was 64 years of age.

* * *

Robert W. Upham was elected Vice-President of the **Peoples Savings Bank of Providence, R. I.**, at the 97th annual meeting held on Oct. 5. In reporting this, the Providence "Journal" stated that Mr. Upham also retains his previous position as Treasurer and Secretary. The "Journal" added in part:

"Two other members of the bank's operating staff, Raymond H. Blake and William P. Dodge, were also named as new Vice-Presidents for the ensuing year. Mr. Blake will serve, in addition, as Assistant Secretary and Dodge as Assistant Treasurer. James B. Leach was elevated to the added post of Assistant Secretary. Charles C. Marshall was reelected President."

* * *

The appointment as Vice-Presidents of the **Mellon National Bank & Trust Company of Pittsburgh, Pa.**, of Clifford L. Potter and Milton C. Smith, formerly Assistant Vice-Presidents of the trust department, was announced on Oct. 8 by Frank R. Denton, Vice-Chairman of the bank.

* * *

The stockholders of the **First National Bank in Latrobe, Pa.**, approved on Oct. 1 the plans for the taking over of their bank by the **Mellon National Bank & Trust Co. of Pittsburgh.** The bank as a result has become the Latrobe office of the Mellon. Reference to the plans was made in our issue of Sept. 9, page 1017.

* * *

The death of Elwyn Evans, President of **Wilmington Trust Company of Wilmington, Del.**, occurred on Sept. 27 as the result of a heart attack suffered at Toledo, Ohio, while on his way to attend the annual convention of the American Bankers' Association at Detroit. Mr. Evans, who was born in Racine, Wis., was a director of the E. I. du Pont de Nemours Co. Special advices from Wilmington to the New York "Times" said in part:

"While at Oxford [of which he was a graduate] he spent two vacations and a term as a member of the American Relief Administration under Herbert Hoover in Austria-Hungary and the Crimea of Russia.

"After practicing law in Milwaukee for five years he joined the Wilmington Trust Company. In 1935 he became Executive Vice-President and in 1942 President. He was elected to the board of directors of du Pont in the latter year, and served as Chairman of the Committee on Audit until 1947 when he became a member of the Finance Committee."

Mr. Evans was 52 years of age.

* * *

Under the title of the **Carroll County National Bank of Westminster, Md.**, and the charter of the **First National Bank of Westminster**, the consolidation was effected on Sept. 30 of the First National Bank, the Farmers and Mechanics National Bank and the Westminster Savings Bank, all of Westminster. The Carroll County National Bank has common capital stock of $400,000, divided into 40,000 shares of the par value of $10 each, and a surplus of $550,000. The First National Bank had a capital of $125,000, while the Farmers and Mechanics and Westminster Savings Bank each had a capital of $100,000. Previous items regarding the consolidation appeared in these columns Sept. 2, page 916, and Sept. 30, page 1329.

* * *

In furtherance of plans of the directors of the **First National Bank of Chicago** toward the distribution of a 25% stock dividend, Edward E. Brown, Chairman, announced after a meeting on Oct. 8 of directors that the board had called a special meeting of shareholders for Dec. 21 to vote on the distribution of a $15,000,000 stock dividend which would raise the bank's capital to $75,000,000 from its present $60,000,000. The Chicago "Tribune" of Oct. 9, from which we quote, also had the following to say in part:

"Under the plan to be submitted to shareholders one new share will be distributed for each four shares now owned. The distribution will be made to stockholders of record Dec. 15.

"The funds for the $15,000,000 dividend will be taken from the bank's surplus account which stands at $75,000,000. After the distribution the bank will have a capital of $75,000,000 and a surplus of $60,000,000, or a total of $135,000,000."

* * *

In furtherance of the liquidation of the old **First National Bank of Detroit, Mich.**, which was placed in receivers' hands in the 1933 bank holiday, stockholders of the bank will on Oct. 25 share in a $5,000,000 disbursement by the First Liquidating Corp., it was announced by W. T. ZurSchmiede, President, according to the Detroit "Free Press" of Oct. 6. The paper quoted also said in part:

Mr. ZurSchmiede's notice informs stockholders that the distribution, amounting to 25% of claims, is preliminary to a final disbursement expected to amount to $7,000,000, or 35%, contingent upon pending tax settlements.

"All depositors have been paid in full, many with accumulated interest.

"With one previous payoff of 25% to stockholders, their recovery is expected to reach 85% of assessments paid."

John E. Hauss was appointed Assistant Cashier of **Mercantile-Commerce Bank & Trust Co. of St. Louis, Mo.**, at a board of directors meeting held Sept. 23.

* * *

The Association of Bank Women of Milwaukee has elected Miss Paula Bruhn of **Marine National Exchange of Milwaukee, Wis., Bank** as Chairman, it is announced according to the Milwaukee "Journal" of Sept. 24. Miss Mary A. Ralston, First Wisconsin National was named Vice-Chairman; Mrs. Mabel P. Schouten, Wauwatosa (Wis.), State Bank, Secretary, and Miss Laura E. Roth, **Cudahy State Bank, of Cudahy, Wis., Treasurer.**

* * *

George A. Ehrenpfort has been elected a Vice-President of the **San Francisco Bank of San Francisco, Cal.**, it is learned from the San Francisco "Chronicle" of Sept. 30, which adds that Mr. Ehrenpfort has been Assistant Vice-President in the Mission branch and will now be in charge of that office. The "Chronicle" further says:

"President Parker S. Maddux announced other promotions: Promoted to Assistant Vice-Presidents are Herbert J. Gaevert, Robert A. Peters and William A. H. Fleischer; promoted to Assistant Cashiers are William Lloyd Bloom, Arthur M. Hall, George J. Myers and Raymond S. Stelling."

* * *

The Anglo California National Bank of San Francisco plans to open a branch office on Van Ness Avenue in that city, it was announced Oct. 7 by Allard A. Calkins, President. The new office will have complete banking facilities. A large area will be occupied by the headquarters of the bank's automobile contract department, now located at 510 Montgomery Street. This department, it is said, has the distinction of having been the first to be established by any bank in the United States for the financing of automobile purchases and has been in continuous operation since April 1, 1917. The new office is expected to open for business shortly after the first of the year.

* * *

Homer E. Geis, Assistant Vice-President of **The California Bank of Los Angeles** and C. J. Fuglaar, Treasurer of the bank's affiliate, **California Trust Company**, have completed 25 years of service with their respective institutions. A graduate of Georgetown University, Mr. Geis was admitted to the California State Bar in 1923 and previously practiced law in Montana and the District of Columbia. Mr. Fuglaar held positions in North Dakota and Montana banks for a number of years prior to joining the trust company's staff as accountant in 1923.

* * *

The election of Henry Matthew as President of the **Federal Land Bank of Spokane, Wash.**, was made known in the Seattle "Times" of Sept. 23. Associated with the Bank for 20 years, 17 of which he served as Vice-President, Mr. Matthew succeeds in the Presidency R. E. Brown, who is retiring, says the announcement made by William A. Schoenfeld, Chairman of the Land Bank's Board.

J. W. Woolfolk Dead

J. W. Woolfolk, President of Wheeler & Woolfolk, Inc., New Orleans, and a former President of the New Orleans Stock Exchange, died on Sept. 22.

Dunbar Adds Vadasz

BEVERLY HILLS, CALIF.—Frederick Vadasz is now associated with John B. Dunbar & Co., 443 North Camden Drive.

H. R. O'Neil Joins Staff Of Demsey-Tegeler Co.

LOS ANGELES, CALIF. — Hubert R. O'Neil, Jr. has become associated with the New York Stock Exchange firm of Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. O'Neil was formerly with Morgan & Co., Bourbeau & Douglass, Buckley Brothers, and Butler - Huff & Co. In the past he was head of his own investment firm in Los Angeles.

Hubert R. O'Neil, Jr.

New Cuban Regime's Policies Indicated

What is probably an indication of the course President-elect Dr. Carlos Prio Socarras of Cuba will follow, when his Government assumes office on Oct. 10, was disclosed yesterday by Dr. Miguel Varona Galbis, Vice-President of the Havana Stock Exchange.

Dr. Varona Galbis, now in New York for discussion of affairs of his Exchange with financial interests, said that members of the New York Stock Exchange and representatives of finance and industry, were elated at opinions expressed by the President-elect when he attended a recent meeting of the Exchange held in his honor.

"The President-elect," said Dr. Varona Galbis, "expressed his firm belief that complete cooperation, harmony and understanding between the Government, capital, labor and management are essential to national and individual prosperity, and the progress of Cuba.

"The President-elect amplified this," said Dr. Varona Galbis, "emphasizing a requirement for fair wages; encouragement of fair profits that will enable employers to pay them; and mutual cooperation in converting manpower and resources into usable, fairly distributed wealth.

"A major promise in Dr. Prio Socarras' program" said Dr. Varona Galbis, "is to maintain a well balanced price for Cuba's sugar crop so that fair profits will be earned; competition with other producers will be kept on an equitable basis; and, when supply again balances with demand, Cuba's record of not taking price advantage during the shortage will be beyond reproach.

"The President-elect," continued Dr. Varona Galbis, "is aware that considerable Cuban capital is idle and that suitable opportunities must be opened for its employment. He also recognizes the need of foreign capital investment to expedite Cuban progress and prosperity; and the coordinate need of insurance to investors in the form of an efficient, dependable government and harmonious internal conditions."

The President-elect is described as a young, democratic, vigorous minded man, with the ability and intention to run the government on a business-like basis.

Dr. Varona Galbis, in speaking for the Havana Stock Exchange, said that it is his impression that capital and industry look forward with great confidence that new opportunities will be opened in Cuba as the new government inaugurates its policies.

Defends Life Insurance Bond Purchases

Graham Adams, financial consultant, in letter to friend, says life companies have filled gap caused by inability of private investors to supply needed industrial capital.

The "Chronicle" has received a copy of a letter, dated Oct. 7, which Graham Adams, a financial consultant and a former Wall Street broker, wrote to one of his old acquaintances, whose identity is not disclosed, regarding the current controversy between insurance companies and banks in the matter of private placement of securities.

The text of this letter follows:

Dear ———:

If you have not read it, I believe you will be very much interested in the enclosed "Empire Trust Letter," dated Oct. 1, 1948. Mr. Lawrence is one of the soundest economists I know.

Wholly aside from the life insurance company-commercial bank controversy regarding inflation, which you apparently launched (shame on you!), I am wondering what would have happened to our economy if the life insurance companies did not constructively step into the vacuum created by the inability of the investment banking houses to distribute an adequate amount of senior industrial securities to others during the past ten years. Because of almost larcenous taxes, there has been very little capital formation in the past 15 years in the hands of individual investors who were formerly the principal clients of the investment banking houses. Furthermore, the government has kept bond interest rates so artificially low that the yields on them, after taxes, do not attract individual investors. In addition to this the printing, accounting, legal and other expenses and the delays disclosures and uncertainties involved in registration with the Securities and Exchange Commission (as part of the underwriting and distributing procedure of publicly offered securities) often makes the cost, disadvantages and difficulties almost prohibitive for many companies and especially small industrial companies. In the face of these conditions, there was a growing demand for long-term funds with which to finance postwar reconversion and supply the increased working capital required in an inflation period to carry higher-priced inventories, larger accounts receivable, mounting payrolls, etc. Fortunately, the life insurance companies were able to step into the breach and take over, to some extent, the former functions of the investment banking houses, so far as senior financing is concerned, for corporations other than railroads, public utilities and municipalities, which, under the law, must sell their securities through the medium of competitive public bidding.

At the risk of boring you with information you may already have I would like to make the following general comments: in round, approximate figures, the 492 life insurance companies in this country have assets today of $50 billion and $200 billion of insurance outstanding. Their assets have about doubled in every recent decade and, as you know, over $18 billion (37.2%) of them, as at last June 30, were invested in United States Government bonds (and, incidentally, where would these $18 billion of government bonds have been placed if the life insurance companies did not buy them?). I do not believe more than 25 of the 492 life insurance companies have so far organized departments for properly handling corporate loan applications. According to Mr. Sherwin C. Badger of the New England Mutual Life Insurance Co. (speaking at the Financial Section Meeting of the American Life Convention, Chicago, Ill., Oct. 4, 1948): "During the past ten years approximately $10 billion of securities have been placed by this method, representing 30% of all corporate flotations in the period. To this date the figure has been nearly 40%, while in industrial, as distinguished from railroad and public utility, financing, the percentage is very much higher." However, Mr. Badger's $10 billion figure is probably too high, because practically all these loans are fully amortized, through minimum fixed annual payments, by their maturities and many of them are further reduced by additional contingent earnings sinking funds. Hence, the total now invested in them operates, in a way, like a revolving fund. In any event, even $10 billion would represent only 20% of the life insurance companies' total assets and, it seems to me, we should all be thankful that the insurance companies are in a position to loan this money to qualified corporations. The insurance companies have very exacting requirements and I know from experience that the loans are made on very conservative and constructive bases and after the most thorough investigations.

These long-term insurance company loans are, of course, not competitive in any way with the demand and short-term loans made by the commercial banks against the latter's demand deposits on which they do not pay interest. On the other hand, the insurance companies have a constant influx of premiums in excess of their current payments, do not require the same high degree of liquidity and, in justice to their policyholders must obtain a fair return on their investments if the cost of insurance protection is not to become prohibitive. I personally believe that the life insurance companies not only made a great, patriotic contribution to the war effort by investing so large a percentage of their assets in artificially supported, low interest bearing government bonds, but that they are now also performing a necessary and very fine public service in making these private loans to our better industrial companies under prevailing conditions.

With cordial regards, I am,

Sincerely yours,

(Signed) GRAHAM ADAMS

New York City

Oct. 7, 1948

W. Schag Heads Dept. Of Davis, Skaggs & Co.

SAN FRANCISCO, CALIF.—Walter F. Schag has become associated with Davis, Skaggs & Co., 111 Sutter Street, members of the San Francisco Stock Exchange, as manager of the brokerage department. Mr. Schag was formerly with First California Co.

Walter F. Schag

Charles C. Clarke is now chief of the Statistical and Research Department of Davis, Skaggs & Co.

Railroad Securities

Gulf, Mobile & Ohio stocks have been trading listlessly at prices well below the year's best levels despite the particularly favorable trend of operations and earnings. For the eight months through August net income after fixed and contingent charges amounted to $3,909,662. This represented a gain of some $925,000, or 31%, over the like period a year ago. Allowing for preferred dividend requirements for the period, earnings on the common stock amounted to $3.23, up more than $1.00 from earnings for the eight months through August, 1947.

One of the most favorable aspects of the Gulf, Mobile & Ohio picture is the high degree of operating efficiency that has been attained since operations have been largely dieselized. The major part of this program was completed a little over a year ago but the program is still continuing and the effects have been cumulative. As between 1946 and 1947 the system, including Alton, which was merged around the middle of last year, realized by far the largest cut in transportation ratio of any major carrier. The Gulf's ratio dropped from 38.8% in 1946 to 32.7% last year. The 1947 showing was bettered by only a few roads in the country and compared with a ratio of 40.0% for the industry as a whole.

In common with the industry as a whole and most of the individual roads, Gulf, Mobile & Ohio experienced an increase in its transportation ratio in the first half of the current year. Gulf's increase was not so wide as the Class I average and has been more than offset by the sharp improvement in the first two months of the second half. The August ratio went below 30%, a very rare accomplishment in these days. This demonstrated ability to control expenses involved in handling and moving the traffic, which usually account for 50%, or more, of all operating costs, adds considerable long term investment stature to the road's various outstanding securities.

There are other favorable angles to the Gulf, Mobile & Ohio picture. The long term traffic prospects appear bright. The road operates for the most part in an expanding territory. Over a period of years industrialization of the southern sections has brought a healthy diversification to the system's business and has developed important new traffic sources. There is ample evidence that this growth has not as yet run its full course. Expanding trade through Gulf of Mexico ports is another favorable factor. Finally, growth of the system through a series of mergers has materially strengthened the traffic status, in addition to improving the earnings by virtue of an increase in the haul on through traffic. The lines now extend all the way from Chicago to the Gulf of Mexico at Mobile and New Orleans.

The high degree of operating efficiency and the basically favorable traffic background augur well for continuation of a high rate of earnings over the visible future. They also point strongly to the likelihood of a better-than-average resistance to any decline in business that does come over the intermediate or longer terms. As for the current year, the results to date indicate a possibility of earnings perhaps as high as $5.00 a share for 1948. This would compare with $2.66 a share last year and a deficit in the adjustment year 1946. The common has recently been selling only about three times prospective 1948 results.

Despite the high level of earnings and the favorable outlook it is not likely that the management will adopt any regular dividend policies for the common stock. The new equipment installed has involved heavy cash outlays. Also, a large amount of serial equipment debt has been contracted and the company has an issue of serial collateral trust bonds outstanding. These maturity requirements dictate conservative financial policies. Nevertheless, the preferred has finally been put on a regular quarterly basis and it is likely that a token distribution on the common will be authorized late this year as was done in 1947.

Public Utility Securities

Revival of Utility Stock Financing

The public utilities, in connection with their huge construction program of 1948-51, must do a considerable amount of stock financing in order to maintain the ratio of equity money to total capitalization at present levels. Many large companies, such as Cleveland Electric Illuminating, Boston Edison, Commonwealth Edison and others, wish to maintain a high equity ratio, but if necessary could temporarily increase their debt ratios. On the other hand, some holding company subsidiaries, as well as companies recently released in the break-up of holding companies, have lower equity ratios (many of them around the 25% level fixed as a minimum by the SEC) and must therefore issue stock to maintain this ratio—though of course some equity money is realized through reinvested earnings, and some construction money is also obtained through cash released by depreciation and amortization accruals.

There is another reason why common stock financing is necessary if debt ratios are to be held down. Utilities have had great difficulty in issuing preferred stocks in the past year and some of them, such as Public Service Electric & Gas, have substituted debenture issues. But the omission of preferred stock throws a greater burden on other methods of financing.

Some companies have issued convertible debentures as a temporary substitute for common stock financing, with the intention of forcing conversion at some later date. Consolidated Gas of Baltimore retired about half its convertible issue on July 1, since a rather unusual provision in its conversion privilege on that date "forced" partial conversion. Public Service of Colorado has indicated its intention to force conversion of its Debenture 3s, which have been selling at a substantial premium; it will issue new first mortgage bonds and some convertible preferred stock. Public Service Electric & Gas hopes eventually to convert a large proportion of its 6,063,000 shares of $1.40 convertible preference stock into common stock, but must await better markets; it is imitating Philadelphia Electric in this respect.

Detroit Edison proposes to issue $47 million Convertible Debentures some time this Fall, offering them to stockholders at the rate of $100 for each 15 shares of stock. However, they will be convertible "not later than two years after the date of issue." Stockholders will vote on the proposal Oct. 26.

After a summer lull, plans for new utility stock issues are getting under way, and apparently they will all be subscription affairs. Some are being underwritten, others not. Most of them will carry the over-subscription privilege, which proved so popular earlier this year—permitting any stockholder to enter a supplementary subscription in addition to exercising his regular rights, the additional stock being supplied (subject to allotment) out of the unsubscribed portion of the issue.

Columbia Gas has offered stockholders of record Oct. 5 the right to buy new stock at $10 on a 1-for-10 basis, rights expiring Oct. 28. While the offering is not underwritten, a new type of arrangement has been devised whereby a nationwide group of security dealers, managed by First Boston Corporation, will be compensated for obtaining subscriptions and for selling shares of new stock to new stockholders. United Corp., a large holder of Columbia, has applied to the SEC for permission to subscribe for its regular allotment of about 192,000 shares, and has also asked permission to buy an additional 50,000 shares out of any unsubscribed stock. The Columbia rights are currently being traded around ⅛.

Central & South West, another holding company, plans a 1-for-10 issue of rights, probably within a few weeks, to help finance the system's construction program. Details have not yet been announced, but officials of the company and its subsidiaries recently held a meeting with a group of bankers and analysts to acquaint them with the almost fabulous growth which is occurring in much of the system's territory.

Washington Gas Light recently offered subscription rights. Common stockholders of record Sept. 29 have the right to subscribe to stock at $21.50 a share on a 1-for-5 basis, rights expiring Oct. 13. First Boston Corp. and Johnston, Lemon & Co. of Washington head a group to underwrite the issue and take up any unsubscribed shares. Rights are currently traded over-the-counter.

Pennsylvania Power & Light announced Sept. 24 that stockholders had subscribed for 91.5% of the 316,863 shares of common stock recently offered for sale at $16.25 a share. The deal was underwritten by First Boston Corp. and Drexel & Company of Philadelphia, who sold the unsubscribed stock.

Virginia Electric & Power announced on Oct. 1 that rights would be offered to stockholders of record Nov. 12 to subscribe for new stock on a 1-for-4 basis, with over-subscriptions permitted. The issue will be underwritten. A novel feature will be a partial payment plan, subscriptions being payable at option in three equal instalments on or about Dec. 1, March 1 and June 1 (interest being allowed on partial payments).

Francis I. du Pont Has New Cleveland Branch

CLEVELAND, OHIO. — The New York Stock Exchange firm of Francis I. du Pont & Co. has opened a branch office at 1010 Euclid Avenue. Associated with the new office are Carl E. Dyas, Ernest G. B. Benn and Harvey L. Spero. All were previously with the Cleveland office of Hirsch & Co. of which Mr. Dyas was resident manager.

Remove Pegs on Government Bonds!

(Continued from page 7)

more progress since March of 1946 either in getting control of the processes by which our money is inflated, or in creating the public agency which should study the picture and provide the foundation for our future organization and procedures.

We, the businessmen, have not done our part. If you have read, you will recognize what I say, and if you haven't read, I suggest you do read the public records of the recent Senate and House Committee hearings which considered inflation during the Special Sesion.

There was an earnest effort made in both of those Committees by the members of the Senate and the House to get an accurate picture of this exceedingly difficult problem.

The questions were intelligent. They lacked the comprehensive and accurate detail which only full knowledge could provide, but the information that was given to them was not comprehensive, was not accurate, was not clear. There was no life insurance man before those Committees. There was only one banker, and he was the President of the American Bankers Association, and he appeared by a very short, and not very helpful memorandum, which is incorporated in the Appendix of the hearings.

Those who did appear were members of the Federal Reserve Board and Presidents of Federal Reserve Banks in various parts of the country, and I say that the contribution made by those gentlemen to the members of Congress who have the final responsibility was not what the business world should provide for the use of their representatives in a matter of such great importance, where we expect them to use intelligent judgment in making their decisions.

I listened a few days ago to the Minister of Finance of Belgium. I was impressed by three things. He emphasized the fact that Belgium has made great recovery since the war. He said that it had been due to private enterprise, that there had been nothing like socialization or nationalization in the field of economics. He said that even in foreign trade, they had recovered beyond their foreign trade of before the war, and that the Government had not had any part in it, proving that it is not necessary, even in the field of foreign trade, to have the government represent private business and industry. And he emphasized the fact that Belgium's money had been stabilized.

How do I know that? Well, the bilize money without action by the government. That is one matter which we, in a business world, are absolutely dependent on government for. Government must provide us with a sound money for equitable and fair distribution of goods and services currently, and for the storing away of any excess for future use.

Government and government alone can give us the sound money upon which all business, and all individual economic activity are dependent. But the Minister of Finance of Belgium said that that restoration of sound money in Belgium had come about with the cooperation and help of the bankers and business people in Belgium. That is precisely what we need here, and it is precisely what we have too little of in this country.

There are some important contributions made in those hearings. Mr. Eccles, with whose ideas we frequently differ, remarked in reply to persistent questioning that, under present conditions, present organizational procedures, the Federal Reserve System in this country is the greatest inflation engine that could be contrived by man. It is a pretty strong statement, and yet when you turn to the figures, there is some justification for it. There is much less mystery about this matter of money than we generally assume. The day is passed when we can talk about sound currency, or even sound money. What we need is a sound monetary system, which includes a lot more than currency, and a lot more than the average citizen understands about money.

Our money supply is easy to understand, easy to carry in your heads. It is just short of 170 billion dollars. It consists of two billions of coins, mostly silver and 26 billions of bank notes, convertible into other bank notes, and nothing else, and the balance of 140 billions in bank deposits.

Before the war, 60 billion was enough money supply for our activities of all kinds in this country. At the end of the war, our money supply was approximately 150 billion dollars. I say "at the end of the war"; if there be any meticulous critics around, I mean the Federal Reserve bulletins at the end of 1945. I have always enjoyed a poetic license in this matter of figures, except in the life insurance business, where I am under the control of the actuaries. I take unto myself a little leeway and express in round figures what might be expressed more accurately and more meticulously.

In giving you these figures, I emphasize the fact that since the end of the war, the money in circulation, consisting of that silver and those bank notes, has not materially changed. It's been around $28 billion. But that part of our money supply which is bank deposits has risen by something just short of $20 billion.

Oh, if you take the very latest figures, it might be only $16½ or $18 billion.

The other day, in Detroit, where I was dealing with an academic audience — you know, the Economic Club—I recited these figures and got kind of mixed up at one moment and used billions when I meant millions, and by way of apology, I suggested that when I earned my vocabulary in my early days, we very seldom made use of the word "billion." It was only occasionally that we referred to "million." And when I added, as I add now to you, the figures of our money supply, the figures, particularly of our government debt, have reached points where some day soon you are going to be listening to folks who talk about not millions, not billions, but trillions. Our money supply, to my surprise, I found described by an academic economist since I came from Detroit in terms of a quarter of a trillion, instead of 250 billion, and I say to you, watch out when they start to talk about trillions.

We know how this money supply went up during the war. It was by too much government debt getting into the banks, and the banks didn't pay for it with present existing money, as we in the life insurance business must do when we buy bonds. The banks created bank deposits which increased the money supply to pay for the Government bonds that they absorbed in the process of financing the war, and they didn't do it all by subscribing to new issues.

You remember in the Third Victory Loan, banks were forbidden to subscribe to any but the shorter term paper offers. You remember that a little later, banks were put in a position where they could not buy and hold subsequently issued long term bonds for a certain number of years; generally speaking, until the time had arrived when they were within ten years of their maturity.

I now hazard the phrase, "They were made ineligible for bank ownership until they were within ten years of maturity."

That, of course, was intended to stop the expansion of bank deposits through the acquisition of Government bonds, but the Treasury went on selling short-term Governments to the banks, even after they were prohibited from buying the longer term bonds, and the short-term bills and certificates had the same effect of increasing bank deposits and the money supply that long-term bonds sold to the banks would have had. And the banks went on buying on the market, even the bonds they were forbidden to subscribe to upon issue.

How do I know that? Well, the banks held $10 billion, at least, at the end of 1945 of bonds they were forbidden to subscribe to upon issue. Where did they get them? They got them on the market; and I am sorry for the poor banks. I am not crusading against the banks. Why, those poor bankers paid a premium to get those bonds on the market, and there was just as much contribution to the inflation by their buying them on the market as there would have been by their subscribing for them at par. The only result was that the bankers paid the free riders a premium.

And why did they do it? You know perfectly wel that I am not smart enough to correct the judgment of the bankers. They bought those bonds at a premium because they were depending on the continuance of the support of the bond market by the Federal Reserve System under a formula that assured them that they could turn those bonds in to the Federal when and if they needed to do it.

But what has continued to increase the money supply since the end of the war? I have just said to you, since the end of 1945, the government debt has gone down about $28 billions. The marketable debt, that is, what the banks can hold, has gone down nearly $40 billion, but, at the same time, the money supply has gone up nearly $20 billion.

Well, those of you who are familiar with the operation of the banking system know how that comes about. We have been continuing to buy gold through the banking system. We have bought nearly $4 billion worth of gold since the end of the war through the banking system.

Do you know how we buy that gold? I am not quarreling with the fact that we buy it. I recognize that very much of it has been the sale of foreign gold, which has provided dollar balances in this country, and has enabled the sellers to buy our goods in an amount equal to the sale prices of the gold.

But do you know that, eliminating a few details which are bookkeeping beyond my capacity to follow, that gold passes through Reserve banks to the Treasury, and is paid for at $35 an ounce by a Treasury check on its balance with the Federal Reserve Bank, and then God help the poor gold. It is forwarded to Fort Knox and returned to the earth from whence it came.

And then the Treasury notifies the Federal Reserve Bank on which it drew to pay for that gold that it now has the gold safely buried. "Please restore the balance of the Treasury," and in order to accomplish that, the Treasury issues a gold certificate—oh no it doesn't. That's what is used to do in the horse and buggy days. What it does is to enter on its books a statement that some time, somehow, if and when, in the future, the Federal Reserve Bank will be entitled to a gold certificate in the amount of the gold, and the Treasury having notified the Federal Reserve Bank where it keeps the bank account that that has been accomplished, the Federal Reserve Bank restores the price of gold to the balance of the Treasury, and, in effect, cancels the check which was used to pay for the gold, and the gold has cost the Treasury nothing, and it is precisely as if you bought a General Electric refrigerator for $300, told the bank you had it after you had drawn the check, and then asked them to restore the $300 to your balance.

But not merely that, there has been added to the bank deposits of the country the price of the gold in favor of the seller. This seller, let us say, draws on that bank balance and pays the International Harvester Co., Chrysler or General Motors, and other companies, for equipment and ships it abroad. The transaction is closed. The price of the gold has added to our bank deposits. The bank deposits have been scattered through the country. The gold is buried in Fort Knox. The proceeds of the sale of the gold have been shipped abroad.

We have $100 billion, if that was the price of the gold, added to our bank deposits and our money supply, but what did the banks have? In addition to all that, the commercial banks have added reserves which they can convert into four times the price of the gold of additional bank deposits.

Now, I recognize everything up to that moment, but why, in the name of heaven, should we, with the excessive money supply we presently have, go on increasing our money supply because somebody chooses to sell us gold? That is what is going on, and that is one of the chief sources of the continued increase in bank deposits, the most important part of our current money supply.

And the other way in which that money supply continues to increase is through bank loans made with newly created bank deposits.

At the risk of taking a little more time than perhaps I ought to, I'd like to recite for you the details of a particular transaction. A great oil company seeks to borrow from a combination of banks $100 million. The proceeds are to be applied to a very desirable project. The loan is for eight or ten years. Oh, yes, the banks now make loans like that, not as many now as they did a couple of years ago. It was a good credit. The life insurance companies would have been glad to have it for that term or a little longer, not at that rate, but at a little higher rate.

And when someone asks, have you free reserves to make a loan as large as this—we thought your reserves had pretty closely been kept to the legal requirement for the last couple of years.

"Oh, we can easily get the aditional reserves."

"How?"

"Simply by selling some of the Governments to the Federal."

"But suppose the Federal refuses to take your Governments in order to enable you to make a loan like this?"

"Oh, they can't. The Federal Reserve Board has a rule supporting the Federal bond market under which the district Federal Reserve Banks must take our Governments at the pegged price."

"And how many Governments will you have to turn in to the Federal in order to make a $100 loan?" (This was before the increase in reserves.)

"Oh, about $22 million."

Now, that's the way it has been operating. The banks could go on making loans, even though their portfolio had used up their free reserves, by simply giving the borrower a bank account for the amount of the loan and covering the required reserve at the Federal, which was 22% then—it's 26% now—with a deposit of that volume of Federal bonds.

I have had to watch my step for the last couple of minutes, because I see one or two folks here who were in on that transaction.

Isn't it a fair question whether, assuming that that was a good credit, assuming that it was a good loan, assuming that it was all right from every point of view, the bankers have not some responsibility, some duty to see to it that that kind of transaction, adding $100 million to the money supply of the country—isn't that inconsistent with the general welfare of the country?

Isn't it fair to ask the question whether we ought not, all of us, to have in mind the general welfare in this important matter, because when I speak on this matter of inflation, even though I emphasize the fact that it results in higher costs for life insurance, lower values to the beneficiaries of life insurance, I do not speak for them alone. I did not speak in any criticism of any particular group, except the governmental group. I speak for the public welfare of all the people in this country, and the public welfare is involved in these banking transactions which result, as that single one did, in increasing the money supply through the creation of bank accounts, new bank deposits, new money.

Now, if that were just one transaction occurring in New York, or Chicago, it wouldn't be of great importance. But it has been a usual transaction, and in addition to that, the banks all over the country have been making real estate loans which they ought not to make with newly created deposits. The banks have been making farm loans for long-terms which they ought not to make, and which, I submit, they would not make if they were not depending on the continuance of Federal Reserve support of the bond market and other unsound fiscal and monetary policies which have been enforced and are enforced in this country.

Now, I don't think that we bankers and we life insurance men ought to go on depending on unsound public policies to pull us through the problems of the future.

I am a banker. I am one of the biggest depositors in banks all through the country, and it is other people's money. That is why I am worrying about it a bit, because I like to say to my life insurance organization: I have given my life to this business, taking care of other people's money, and I am just fool enough to get satisfaction out of the business feeling I have done a good job for those who have trusted me.

It wouldn't be a good job if, in the end, the principal turns out to be all right, but the purchasing value shrinks to nothing.

What is the difference between the principal of your investment going down to 70, 60 and 50, and the purchasing value of that in which it is payable going down to 60, 50, and 40? This process of getting reserves from the Federal Reserve Banks and using them to make the kind of loan I have been describing is another contributing factor in the increase in the money supply which has gone on during the last 2½ years.

Now, you can listen; I can listen, and I can read. Representatives of the Federal Reserve Board and financial writers of enviable reputation say there has been no expansion in reserve bank credit. There has been no expansion in reserve bank credit.

Well, if you take the figures of 2½ years ago and apply them against the figures of today, there is no increase. But if there hadn't been an expansion of reserve credit in the intervening time, that reduction of $40 billion in marketable government bonds

would have been accompanied by a decrease in the money supply during a period that we have enjoyed, if that is the right word, an increase of $20 billion.

We have washed out the effect of government reduction of its debt by the creation of bank deposits through the importation of gold, through the buying of gold—I don't care where it came from—and through new loans, new purchases of assets under this unsound policy of the Federal Reserve Board continuing to take government bonds into the banking system at a fixed price.

It is quite true that whether the Federal Reserve Bank takes them from the life insurance company, or from a bank, makes no difference. In each instance, the bank gets increased reserves with which to increase deposits and the money supply.

Now, just think of it. They say that during the last two weeks of September, the Federal Reserve bought $2 billion of government bonds of a type that the banks are not permitted to hold. That proves they were sold by the life insurance companies. Well, I can speak emphatically, because no company that I have any responsibility for contributed to any such sale. Well, let us assume it is true. The life insurance company sold $2 billion worth of governments and the banks bought them. The life insurance company has $2 billion. What could they do with it? Buy $2 billion worth of some other security. What did the banks get out of that transaction? We deposited our money in payment for those bonds, and the banks got deposits for $2 billion.

Now, the first thing that means is that with those $2 billion of deposits, they got additional reserves which enable them to expand that amount by four or five times. But just think of it. At the same time, the Federal Reserve Board raised the required reserves of the banks.

Now, that was foolish, useless. I wouldn't say it was criminal, but wholly against the public welfare. Required reserves should be used for the protection of the depositors, and after the depositors are protected, the balance of bank deposits should be available for portfolio investment.

There is no sense in increasing the reserves required on deposits insofar as this matter of inflated money supply is concerned. It had no effect on inflation at all. They say that it would reduce the volume that the banks had for future loans and investments, because the banks would have to turn in, as it happened, $2 billion additional reserve required under the increased percentages of their deposits.

But the banks didn't have to turn anything in. Don't you see what happened? The life insurance sales provided the banks with all the deposits they needed to meet the increased reserves that the Federal Reserve foolishly imposed on them. Why, the banks ought to be grateful, not critical, of life insurance sales. But whether sold by life insurance companies, or by the banks, the effect is to increase the money supply, and it is only because the Federal Reserve persists in its support of the government bond market.

Now, with respect to life insurance sales, let me say just this of the life insurance companies and everybody else. They bought those government bonds under the representation that they were salable. That is quoted. That they were marketable. That is quoted. Therefore, we have a right to sell them, and in addition to that, the New York law requires us to avoid anything like agreement not to sell any assets of our companies. We can't agree not to sell. But, on the other hand, we have no right to a guaranteed buyer. We have a right to sell, but we have no right to a guarantee from the Federal Reserve that it will continue to buy, when that continuance, especially when that continuance, means the public detriment that is involved in the continued increase of bank deposits and our money supply.

I have no right to speak for the life insurance companies, except for that portion for which I am responsible, but I say to you that we do not need, and we do not want government support of the bond market for us under any such circumstances.

That costs our policy holders more in the long run through the depreciation of the dollar than any benefit that it can possibly confer upon us, and all these prophets of doom—look what would happen if the support of the government bond market were taken away? What would the life insurance securities drop to?

Well, you know, our securities are all carried on what is technically known as an amortized basis, and they will continue to be carried at or about par quite irrespective of the price that they enjoy on the market. That is what kept us stable through the years of depression, so we are not concerned about a drop in the market values of the government bonds, and the bank examiners, and FDIC, can readily do what little is necessary to preserve the banks from any similar detriment due to a drop in the prices of government bonds.

And would there be such a drop as these fellows with red herrings suggest? Would government bonds go to 75 to 70? Of course they wouldn't. The support program does not extend to E bonds and F and G bonds. The holder of those bonds, if you figure it out as I do with layman's arithmetic, can get about 95 on the hundred, if he turns them in in the early years.

Oh no, you tell me, the E bonds get 100. Yes, they get 100, but they don't get that interest for two or three years that they assumed they were going to get when they took the bonds. Making allowances for that, I venture the suggestion that the savings bonds, all of them, are supported at about 95, and they constitute $60 billion of all the outstanding government debt.

And then there are $35 billion of that debt in the Social Security and other trust funds. There are $20 billion of that debt in the Federal Reserve Banks. They don't need support. They have been supported. That is why they are there.

Then there are $45 billion of that debt that mature within five years. They don't need support. The money is good. That's about $135 billion of the whole 250. We in the insurance world have $20 billion of the remainder. They don't need support. Savings banks have 10. They don't need support.

The balance of $60 billions are in the hands of individuals, long-term bonds in the hands of individuals, and the commercial banks.

Now, I say we don't need support. We don't need support unless we want to take the proceeds and invest them in a higher coupon investment, and that, I submit, is not support. That is indulgence, and neither the banks nor the life insurance companies, nor any other holder of government bonds should, in this day of excessive money supply, be guaranteed the right to hand in their government bonds at a fixed price with a certain increase in that already excessive money supply.

Now, I have talked entirely too long to you, and yet I am sure that if I don't say another word, every mother's son of you going out the door will say, "That's right, but what is he going to do about it?"

Well, very briefly, we have got to stop this method of buying gold with that foolish addition to our money supply as a result of it.

We have got to stop this monetization of government debt, whether through sales of life insurance companies or banks, with the result of further increases in our money supply.

We have got to get our financial and monetary system and procedures in order.

The other day, our representative in European relief told a representative of Western Europe that governments must get on a sound fiscal and monetary basis, that it was absolutely essential that they stabilize their monetary situation.

We used to say in the country, where I live, what's good for the goose is good for the gander. That is what we need to do.

And, of course, the first thing that we ought to do is to reduce government spending not only so that we will have a balanced budget, but so that we will know it is within our resources to pay. We must stop making appropriations of public money until we know where the money to pay for them is coming from.

But, mind you, neither a balanced budget, not even going back on the gold stand... ...remedy what I ... ...point out to you ..s morning. We have invented ..t up, and have in full operati.. the greatest printing press ..at has ever been develope.. in human civilization. I say "..reatest" because it is as effecti.. as any other, and it is camouf..ged under the respectability of ..e cloak of the Federal Reserve S..tem. It is just as effective as an ..pen printing press pouring our b..k deposits which are the princi.. part of our money supply.

Those things w..h can be done now have been d..e. We still need what I suggested .. you at the close of my remarks 2.. ..rs ago, some kind of a public re-sponsible agency, like the Aldrich Monetary Commission of 1911, which devised the Federal Reserve System, which will give this whole question the works in the public interest, and devise that which is fair and equitable to all interests concerned, and a sound basis upon which to build the future welfare of this country.

Because, believe me, an inflation is not always followed by a depression. An inflation may be followed by a second inflation and that may be followed by a third inflation, and that by a fourth, and so on, until you are led to the brink of financial ruin. The biggest danger the country has in front of it today is the collapse of its financial structure, bringing as it most certainly will, a complete and absolute regimentation and domination of every interest of every individual in this country by the Federal Government. That was never intended.

It is the absence of that which has made America great. It is the absence of that which is pictured around these walls, and it has brought us to the position we are in today.

From this point on, if we want to save this country from that kind of calamity, we must not only get these things that I have been telling you about in order; we must not only balance our budget and avoid excessive and unjustifiable public spending, but we must make up our minds that our future operations either at home or abroad must be such that we can finance them without further expansion of bank credit, further expansion of bank deposits, further increase in our inflated money supply.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Talk of higher short-term rates (in the near future) along with another increase in reserve requirements is keeping the government market on the defensive on curtailed activity. . . . There is no doubt that the authorities will keep the pressure on the money markets and a $1\frac{3}{8}$% certificate rate, as well as higher reserve requirements, is one way of carrying out the program. . . . Because of the clouds that hang low over the government market, banks are doing very little other than adjusting their money positions through operations in the shorter end of the list. . . .

Selling of long-term Treasuries by non-bank investors continues, although the opinion is expressed in some quarters that the volume of eliminations is likely to taper off in the not too distant future. . . . Offerings of the $2\frac{1}{4}$s due 1956/59 have appeared in the market with indications that a switch operation was being carried out, with the proceeds going into the $2\frac{3}{4}$% due 1960/65. . . . Also some of the $2\frac{1}{2}$s due 9/15/67/72 have been sold to take on the longest partially-exempt issue. . . .

WISHFUL THINKING

Although rumors appear from time to time as to what is going to happen to support prices of the ineligible issues these reports are not getting the same play or creating the same uncertainty or fear they have in the past. . . . It seems as though money market followers are beginning to see through some of these thinly veiled operations and are now leaning more toward the opinion that "pegged" prices are not going to be changed from present levels. . . . The feeling seems to be appearing that the "wish is father to the thought." . . . Until it was evident that the surplus of the governments was to be reduced or non-existent, not so much fear was expressed ..ver support prices of Treasury obligations. . . . However, with the ..etary authorities somewhat on the defensive, the pressure was pu..n from all sides. . . .

..hy all this concentrated effort to point out what is going to ha..en to the economy if pegged prices of governments are not lower.. ..minated entirely by the money managers? . . . Could it .. .. just a wee bit of this operation is of the self-interest variety? . . . Undoubtedly hope has been born, and maybe an opportunity is being sensed, at last, that purchases of long governments are going to be made at prices under 100. . . . Those who advised in the past that purchases of governments be confined to the short maturities, because eventually the longs would break par, are feeling confident enough now to say, "See, I told you so, here they are on the skids." . . . Vindication of former policies they believe may be close at hand and it is only human to help one's cause along. . . . There seems to be nothing quite so adamant as a sold-out bull or one who has missed the boat. . . .

..OME PERTINENT QUESTIONS

Would the dropping of "pegged" prices or their complete eliminatio.. solve all our problems, as some contend? Would lower government bond prices and higher interest costs be the way to prepare for the involved international situation which, to say the least, seems to have much of the country on the anxious seat? . . . If we should be entering a period of business readjustment, as many believe, should there be a drop in prices of Treasury obligations which might precipitate the economy into a full blown depression? . . . **If there should have to be enlarged military expenditures in order to keep the nation strong, is a falling government bond market going to be the answer to the inflation problem, or will there be regulation of those segments of the money markets that have been adding at least a little somehing to the inflationary trend? . . .**

BANK FAVORITES

The longer-term eligible taxables, namely, the $2\frac{1}{2}$s due 1956/58, the $2\frac{1}{4}$s due 1956/59 and the $2\frac{1}{2}$s due 9/15/67/72, may be in for liquidation from time to time as changes occur in money rates, but as a whole most institutions are looking at these bonds with a favorable eye. . . . The largest holders of these securities have not sold many of these obligations and indications are that any further adjustments that may have to be made in portfolios will not involve sizable amounts of these issues. . . . Income is the paramount reason for holding these bonds but lessened fear over support prices ranks high in the continued retention of these bonds. . . .

It is being pointed out that the problem of holding "pegged" prices of the three issues is not nearly as difficult as that of the ineligible bonds, because of the smaller amounts outstanding. . . . The combined total is under $8 billion which is considerably less than there is outstanding in the largest ineligible issue, the $2\frac{1}{2}$s due 12/15/67/72. . . .

LOWER "PEG" VICTIMS

The commercial banks own about 53% of the three eligible issues and these, along with the holdings of the Government and other investors, account for 83% of the total. . . . These positions are considered to be pretty well put, and the owners are not believed to be greatly interested in having prices move under support levels. . . . Insurance companies and savings banks hold about 7% each. . . . Of the deposit banks' positions in the three bonds, country banks account for 45%, reserve city banks, 27%, and non-member banks, 14%. . . .

These institutions are among the more important elements in the banking system, and they would be the hardest hit by a drop in support prices of the longest eligible taxables.

General Practitioners in Liberty

(Continued from page 9)

people of this nation. Minorities — strong, persistent minorities — will always get their way in the absence of a broad, basic understanding; in the absence of a vigorous, intellectual health.

Another thing to remember is the high priority the socialists give to medicine. They include its socialization in the same political breath that advocates government electricity and housing. The extractive industries, transportation and finance run a second to medicine.

Socialism, except in certain rare circumstances, begets socialism. Not only does socialism have an eroding effect on the economy —impairing its sturdiness—but it corrupts reason and morality. These in turn create the political climate for more socialism. There is an abundance of unthoughtful opinion in America, as elsewhere, to the effect that freedom is a luxury, that it can be permitted only when everything in the economy is functioning perfectly.

By reason of the prevalence of these distorted notions, medicine is up for socialization not merely because there are large numbers who want it thus—not simply because it is uniquely vulnerable—but because it is an integral part of a socialistic-thought pattern.

Medicine, therefore, cannot isolate itself. It is in the same barrel with the rest of the pickles. How is the whole barrel doing? Fortunately, some enlightening measurement is possible. Economic freedom, the opposite of socialism, can be reasonably calculated by the percentage of the fruits of one's labor one can retain for himself and do with as he pleases. How much freedom of choice does one have with one's own property? is a way of asking the question.

Dangers of High Taxation

Less than a hundred years ago one could retain 95 cents or more of each earned dollar to use in any way he wished. Gradually this freedom of choice has been slipping away until it now stands at 71 cents. In other words, the take by all governments — Federal, state and local—is no longer 5% or less of earned income. It is 29%. And there are no signs yet that the trend has even slowed down, let alone reversed.

You may think that 29% of earned income for governmental purposes is not dangerous, that some freedom of choice would remain right up to the last cent, that there is no brink short of 100%, that socialism goes on being gradual in its invasions until the time comes when it is complete.

History does not support any such optimistic outlook for a delayed extinction. Colin Clark, one of the world's foremost statisticians, estimates the point at which influential sections of the community become willing to support a depreciation of the value of the money to be at 25% or less of earned income taken by government.

Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. He maintained that by a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. In this instance, I must agree that Lenin was absolutely right. Now then, if one will examine the condition of the big countries, the ones with 25 million or more population, the ones presently regarded as being in a perfectly horrible socialistic and financial mess, this astounding and frightening fact is revealed: No less than 18 years ago the government of Russia was taking 29% of earned income; the government of Germany 22%; the government of France 21%; and the government of England 21%. I repeat, the United States, today, stands at 29%!

One more factor ought to be assessed in weighing the threat of socialized medicine. How do the political leaders now running for office stand on this and related questions? Omitting any discussion of the position of those who are avowedly for ever more and more "social gains" and confining it to those reputedly conservative, we find Governor Warren openly and insistently in favor of compulsory health insurance, the certain forerunner of socialized medicine. At each regular session of his state's legislature he has fought for a health program, and a big one, too. He has argued that state action is preferable to Federal action, in fact is an antidote to Federal intrusion. But now, with eyes on Washington, he says:

"Millions in our nation are not yet secure. If social security is good for some citizens it should be good for every American citizen. Every American who works either with his hands or with his head in no matter what capacity or occupation should be entitled to the benefits of social security. American generosity must extend not only to our own people, but to the peoples of the world."

The other candidate, Governor Dewey, has taken a flat stand against socialized medicine. But he is on record as being in favor of both social security and rent control. He claims to have thought favorably, once, of socialized medicine. However, he did not want to support it until he had found out how it worked elsewhere. An expensive, three-year research program was conducted to find out. All the findings were adverse. It hadn't worked anywhere. Ergo, he is against socialized medicine!

Encroachment of Socialism

This brings me to an important point in our work against the encroachments of socialism. Very few persons today, when thinking in terms of political science, seem able to form judgments on the basis of logic and principle. They find it necessary to resort to empirical tests. How has it worked? The answer to such questions is their only basis of arriving at conclusions as to what should be done.

Well, here is a fact, distressing as it is. There is no sense in glossing over it, saying to ourselves that we do not have to indulge in educational presentations, empirical in character. We do. These presentations must be persistently made and ingeniously designed, or we shall fail.

However, sole reliance on this empirical method is dangerous. By the time the candidate who opposes socialized medicine finds out by slow and laborious research that rent control, social security and other such things do not work, the show will be over. Socialism will be installed.

There is one other reliance. The most powerful influences, but by far the less numerous, are those judgments based on logic and principle. A person who acts in this fashion, though never in his life having heard of socialized medicine, would have been able to reject the idea with only a few seconds in contemplation. He would reason somewhat as follows:

"Socialism is the state ownership and control of the means of production. The unique characteristic of the state is police force. The only thing the state has that you doctors do not have is this sanction to use force. Force can repress, restrict, destroy. It is not creative. Medicine is a highly creative function requiring initiative, inventiveness and enterprise. Ergo, it doesn't make sense to use a destructive force to do creative work."

You may not agree with me, but no doubt you gather from the foregoing that your speaker does not consider the future for the private practice of medicine to be very promising. Putting it bluntly, I think that the future prospects are dim indeed, and that the primary reason for this is that too many of us have been dealing with effects and not cause. The systemic disease here at issue is socialism. What we need and must have is some professional attention to the disease and less practice on the surface eruptions. This is true because socialized medicine is nothing more nor less than one of the many symptoms of the disease.

Can Socialism Be Cured or Prevented?

I wish I could tell you how to cure and prevent socialism. I wish I could do this just as many of you wish that you could stand on this platform and tell those present, with assurance and finality, how to cure cancer. The two desires may be reasonably comparable in their chance of fulfillment. To me, freedom and the knowledge of its attainment is akin to the possession of ultimate truth. It is a condition that we may never achieve in its fullest sense, but it is a goal always worthy of the greatest effort, deserving of everlasting pursuit.

My aim, at least, must be made clear. It is to tell you, briefly, of what I know of socialism and, then, to acknowledge that I know all too little of how to expose its fallacy. Cancer will yield not to the attempts, however devoted, of any one person we might now designate. But, finally—if at all —to the sober, scientific and patient efforts of many accomplished men and women! In this manner —and only in this manner—will socialism receive its uprooting.

Now, as to the disease itself. There is a saying, enough of a fact to be known as a law, to the effect that **man will tend to satisfy his desires along the lines of least possible resistance.**

There are two ways to satisfy desires:

(1) The economic means. By this is meant satisfying one's desires with the fruits of one's own labor.

(2) The political means. By this is meant the satisfying of one's desires by using the fruits of the labor of others.

The first, the economic means, is consistent with the voluntary society and the free market economy. Its motto is, "To each according to merit." Government, that is, police force, plays an important but minor role, that of securing life and the right to sustain that life, which is property. Government, performing only as organized police force, destroys or restrains that which is bad—namely, fraud, violence and predatory practices. Government employed as a servant for these limited purposes increases rather than diminishes liberty. Using restraint or destruction to rid ourselves of that which is bad is constructive. However, I like to reserve the term "creative" for a higher form of human behavior.

The second, the political means, is consistent with socialism. Indeed, it is socialism. Its motto was first stated by St. Simon and later held up as an ideal by Karl Marx, "From each according to ability, to each according to need." The government must be master because only by the employment of the coercive powers of the police force can the fruits of the labor of some be expropriated for the use of others.

Many thoughtful observers have concluded that once the political means has been made available that man will no longer depend on the economic means. He will rush in to avail himself of the political means. That is, he will rush in to avail **himself of the fruits of the labor of others.** Thus, they reason, will **man bring himself to his own destruction.** If one were to rely only on the evidence of our times, agreement with these observers—sometimes referred to as "prophets of doom" —would be in order.

However, I do not agree with this forecasting. It is the same as saying that there is to be no mastery of cancer simply because it has never yet been mastered.

Two Elements of Hope

To me, there are two elements of hope. Both rest on rational processes. The first is strictly personal—something I can do for myself; you for yourself. It is to embrace as our first desire in life that of self-respect and the respect of our fellowmen. Thus equipped, even with the political means available, we would not avail ourselves of it. Even my dog respects my approval of him so much that he will not touch the hamburger placed before him until he has my assent. Is such a behavior too much for human beings to impose on themselves?

The second is a voluntary, cooperative task, something that requires our working together. It is to do away with the political means as a method of satisfying desires. It is to limit government again to its proper functions. This can be accomplished only as there is a wide understanding of the nature of what constitutes proper governmental functions.

The development of this widespread understanding is difficult in the extreme. But the alternative is to suffer the degradations of socialism. Oswald Spengler, author of an important synthesis of history, concluded, on the evidence of the past, that our civilization is in a stage of fruition, that • the end is near. Arnold Toynbee, who produced another such synthesis, concluded differently. He disagrees with the inevitability-of-history theory. He maintains that each civilization present its challenge, that former civilizations declined and fell because the people did not make an adequate response to the challenges they presented.

The challenge of this civilization is socialism and other forms of amorality. If we cannot make an adequate response to this challenge our civilization is doomed to old-world authoritarianism. This response lies, first, in each of us, personally, understanding the fallacy of socialism and, second, in creating a desire on the part of others for a similar understanding.

Sumner Slichter expressed a thought that can be used to draw a contrast between socialistic regime and its opposite, the voluntary, free market society:

"Our economy has the tremendous advantage of possessing three and a half million business enterprises outside of agriculture, and about six million business enterprises in agriculture. This means that the American economy has nearly 10 million places where innovations may be authorized. Have you ever thought of that? Ten million places where experiments may be tried, where no further authority is needed to authorize an experiment. Our economy operates under about 10 million separate private business budgets."

With this in mind, with the knowledge that all energy springs from individuals, with this reminder of free human energy and its release, let's take a look at socialism. Bear in mind that socialism is the state ownership and control of the means of production. Let's look at it in two ways (1) how it is brought about, and (2) what it is like when we get it.

To avoid chaos and utter confusion, responsibility and authority must always go hand in hand. That is a prime organizational principle whether between man and wife, two persons in a kitchen cooking a Sunday dinner, between doctor and patient, or between citizens and agents of government. Try, for instance, accepting the responsibility for the financial care of another person without, at the same time, assuming a commensurate authority over his or her expenditures.

Socialism, an All Responsible State

Now then, if citizens wish to be relieved of the responsibility for some phase of their own welfare by turning that responsibility over to governmental agents, it follows that these agents must assume a like measure of authority. Socialism, by the admission of all its advocates, is the all-responsible state. The all-responsible state is the ultimate goal of socialists, be they the brand who hope or promise to achieve this end legally and peaceably, or be they communists who would achieve the same end illegally and violently.

It ought not to require any explanation to demonstrate that the all-responsible state must also become the all-authority state. At the head of the all-authority state, by reason of the nature of the job to be done, there must be a dictator, one who will imprison or murder anyone who offers differing opinions or who questions his authority. Italy and Germany did not get tyrants at their head by accident, no more than did Russia. These despoilers of life and property were and are as natural to their respective socialistic situations as fungus on a muck heap.

How does all this come about, this political salmagundi which, when it arrives in its ultimate form, causes even its protagonists to cry, "But I didn't mean this"? It comes about just exactly as it is coming about right here in America, step by step, item by item, the loss of one freedom of choice after another, the piecemeal transfer of individual responsibilities to the agents of government. In short, it is the redepositing of the God-given energy existing in many millions of individuals into a political entity we call The State.

What is the real nature of this political entity? Isn't it an abstraction, that is, in the sense that it is void of personality? The state as such—that is, the state separated from its agents—has no soul; it has no money; it has no intelligence; it has no initiative; it cannot invent; it cannot create, nor can it perform an appendectomy.

Government, in its earlier American sense, was the right of all citizens to self-defense which, instead of exercising themselves, they transferred to legally constituted agents. If one thinks of government as this monopoly of force one will then think of the terms "to govern," "to rule," "to force," as synonymous.

To those who advocate various forms of socialism and, at the same time, think of the agents of government as government—instead of government as force — it becomes pertinent to make inquiry about these agents. Leaving aside the manner of their selection, which has a bearing on the relative competence between bureaucrats and non-bureaucrats, in what ways do they as agents of government differ from themselves as persons in private life? Three ways: (1) in the coercive power they can wield over others, (2) in the changed personality which the possession of this power confers on them, and (3) in the effect on them of the taxpayer, not themselves, bearing the penalty for their mistakes. In such other respects as there are to motives and behaviors they remain as they were in the first place, just ordinary folks like the rest of us. How, I ask, would these influ-

ences, if applied to you, enhance your competence for the practice of medicine? Would your creative faculties, on which the advance of medicine is dependent be sharpened or dulled?

You doctors know human nature better than most of us. What kind of personality and character do you find in the sort of person who is used to getting his way by force and threat of force? Remember that such persons must finally run the all-responsible, all authority state, for no one can be finally responsible for another's actions unless he can restrain or suppress actions which would endanger the object of those in power. A doctor cannot take any responsibility for care of a patient unless the patient follows the doctor's advice and prescriptions. In a voluntary society such cooperation is on a voluntary basis, and the patient disciplines himself. But the one and only reason for calling government into the picture, as in socialized medicine, is to bring to bear the coercive authority of the State. It is for the purpose of forcing the will of some upon the lives of some others, usually for the purpose of expropriating the fruits of the labor of one group for the supposed benefit of another group.

What are they like, these heads of the all-authority state who devote their lives to the coercion of others? Are they considerate and kind, tolerant and understanding, as people must be who have to get along with other people on a voluntary basis because force is ruled out? Or are the coercionists intolerant, arrogant, domineering, and bullying? Do they not become more and more insensitive to the wants and interests of others, unscrupulous, even hard and brutal? Jealous of their prerogatives, do they not become more and more greedy for power, quick to take offense at any spark of independence in those beneath them, yet fawning upon those who may give them more prestige and more power? Are they not combative and ruthless, yet suspicious and innately cowardly because they fear retaliation or rebellion from their victims?

And what of those who have turned over or had taken from them the responsibility for their own welfare, the victims of coercion and intimidation? Do we not find these slaves cringing, hypocritical, sly and unprincipled, sullen and apathetic, uninventive except in finding ways to avoid responsibility and punishment, deficient in self-respect and in respect for the rights of others, mean-spirited, suspicious and unresponsive to gestures and acts of goodwill and friendship?

Contrasted Free Economy

Compare this all-authority state and the human gadgets who compose it with the earlier description of the free economy by Mr. Schlicter.

No longer will there be millions of points at which decisions can be made, experiments conducted. For government industries, enterprises and services can only give the appearance of survival if competition from private individuals and voluntary groups be repressed. Therefore, the further the governmental function of force is extended, the more it restricts the number of points from which initiative, invention and enterprise may arise.

Gone will be the energizing force of millions of individuals in pursuit of their self-interest. In its stead will be the political interest of a dictator and his sycophants.

Gone will be incentive and, with it, creative genius. There will no longer be reward for effort, but only fear of death or imprisonment for noneffort.

Gone will be the rights to life, liberty and the pursuit of happiness with each person free to develop his own potentials. The once self-controlling responsible individual will be put in a cell in a political organism, an organism that must eventually become lifeless because its cells cannot live.

Russia, today, is the most glaring example of the all-responsible, all-authority state. In my opinion, the reason that Russia has even one-sixth of the standard of living of America is because the Russian socialistic principles of coercion and force are not totally applied. There is a one-sixth leakage of free human effort! If he socialistic principle were 100% applied, and Rusians could get no relief from countries where free human effort remained, all Russians would starve.

I can make my point about free human energy versus authoritarianism by a crude illustration. Put you and me in a bare room with one fly, you with a fly swatter. If your **every** move **must** await **specific** instructions from me your chances of killing the fly will be practically zero. Regardless of how diligently I try to instruct you, this will remain true. Human energy depends on volition, the functioning of free will.

No Easy Way to Be Practitioners of Liberty

In conclusion, there is no easy way for us to become successful practitioners in liberty. If we have to await someone who will scientifically outline the nature of man and the workings of human energy in sufficiently simple terms, the desire to gain a widespread understanding of our cause, at this time, would appear hopeless.

There has been so much sheer bunk, so much propaganda, so much intellectual dishonesty during recent times that people regard skeptically anything anyone says or writes, regardless of the intelligence and honesty of the message. "Whose axe is he grinding?" seems to suggest the nature of this skepticism.

Special Privileges

Perhaps understanding and confidence would be enhanced and spread if we would unite on a program suggested to some of us by F. A. Hayek: **No special privilege for anyone.** I can't see anything wrong with the idea. It seems to square, precisely, with the basic American ideal of inalienable rights. If we would repeal every act on the statute books that confers special privilege—and reject every new proposal which has any of this nefarious element in it—there would be no socialism. And there couldn't possibly be any socialized medicine.

Probably most of you would agree on the merits of this idea of no special privilege for anyone. But let me speak just a word of caution about it. You know how the word "liberalism" once meant a belief in liberty. You also know how advocates of old-world regimentation have learned to take cover under that word, until today it means the very antithesis of the philosophy of tolerance and freedom it once stood for. You know that it is avowedly good communist tactics to distort and corrupt to their own uses any good word that becomes popular. So, I expect the objective of "no special privilege" to be reinterpreted and perverted to collectivist uses should it begin to attract a following. Therefore, let me make clear now what I mean by no special privilege for anyone. I mean no legal right of anyone to live by the fruits of another man's labor; no government subsidies or price supports because these always are aimed at giving a special benefit to some group or class; no government restrictions on competition, enterprise or service, for such restrictions always are designed as special protections to favored producers. I mean also no special rates of taxes or surtaxes on anyone, for these are always intended to benefit some at the expense of others. And, of course, I mean no taxes on any person or group for the supposed benefit of any others—either at home or abroad.

I realize as well as you do how far we in America are from achieving abolition of such special privileges. I know that this nation is shot through and through with special privilege. Special privileges have become so numerous that they seem no longer to be special but universal, and they are so well-entrenched that they appear to many people as natural rights. Yet, I believe that you and I, and millions more like us, must recognize and begin a program of enlightenment as to the nature of these special privileges if the ravages of collectivism are to be checked.

This may seem to take thought and effort far beyond and above the day-to-day calls of duty in your profession. Yet, as you think about it, I believe you may see that the problem also has its personal and immediate implications for you, for your patients, for your families, for your friends, and for your fellow men everywhere. For only where special privilege is ended, can the individual develop the strength of character, soul and body which make for the good life.

Finally, I believe we should heed the advice of Milton Mayer, given in him pamphlet, **These Few:**

"In the struggle for the rights of all men—which alone will save their skins and their souls—those who belong to minorities must fight first of all for the rights of minorities . . . ; next for the rights of all men; and last, if at all, for their own."

Exaggerated Froth in Business Outlook

(Continued from page 2)

prices and in some lines of business, but how much too high? Many of us are perhaps overestimating the excess and therefore overestimating the recession need to correct it.

In the second place, we may underestimate the stabilizing factors in the present economic situation. One is the financial strength of agriculture, business and people. Agricultural prices, for example, now show weakness. This may be, and probably is, evidence that we are passing through the peak of the price cycle. But what do we find when we look into the financial significance of the farm price change? Farmers on Jan. 1, 1940 had a little over $4 billion of currency, bank deposits and U. S. savings bonds, and their debts including both short-term and mortgages exceeded $10 billion. On Jan. 1, 1948 their liquid assets were over $22 billion and their debts were $9 billion. In other words, their liquid assets are 2½ times their debts, whereas before the war their debts were 2½ times their liquid assets. Without attempting to be precise, I should say that while the liquid assets of all business and people have increased almost 3½ times since 1939, total private debt has increased only about one-third. Total liquid assets in 1939 were 57% of total private debts. They are now 138%; they substantially exceed total private debt. The total of private debt today is well below the annual national income Before the war it was two-thirds larger than annual income.

Inflation is primarily debt-making and deflation is primarily debt-paying. Our private debt-making in the past year and a half has been at a rapid rate. We do not want to see that rate continued. But the alleviating fact is that our private debt-making during this inflation has not been excessive in proportion to capacity to pay as measured by income or liquid assets. The kind of financial strain which was present both in 1920 and 1929 and which heralds a bust or a severe liquidating depression does not exist, speaking generally, either among borrowers or lenders.

Our public debt-making has been huge. But government debt is far less shrinkable than private debt. The Treasury has had a good surplus in the recent past and I wish it would continue to show a surplus, provided it were achieved through economy. I doubt, however, that we should expect debt reduction in the foreseeable future to be large enough to have any profound influence on our money supply. Government debt will not shrink at all if we move into depression. It will increase again. This is a profoundly important fact.

Another fact which strikes me is that people do learn something as a result of business experience and economic study. Early last year I engaged in a public debate on the business outlook in which the gentleman on the other side rather pooh-poohed the idea that recession was being foreseen and prepared for, or that expectation of recession could make any particular difference. He quoted from descriptions of 1920 to show that warnings were issued by prominent and competent people at that time, all to no effect. With all respect, the warnings uttered by the stock market in September, 1946 and over and over again by many people since have not been overlooked.

The business world has shown conservatism and good sense, fortified, ironically, by fear that a bust is around the corner. Public works programs have been conservative.

Finally, in attempting to gauge the pattern and extent of the reaction from inflation, we must remember that there are certain standing commitments under the present situation. The European Recovery Program is one of these. It will stabilize our exports at somewhere near the present level of a billion dollars a month. Already our exports have dropped some 30% from the peak reached in the spring of 1947. We have taken this drop in our stride, so far as its overall effects are concerned, and I see no reason to expect much further decline as long as ECA operates. Then we have our commitment to increased national defense expenditures; they will be larger in this fiscal year than they were last year, and they will be still larger next year. We have a stockpiling program, which is a commitment to buy metals and other strategic materials. And we have the commitment to support farm prices, with which you are all familiar. The normally depressing effects of a decline in farm prices, which has already begun and which seems certain to go further during the coming year, are inhibited to a considerable extent by these supports. Farmers have large crops, and at support levels their money incomes will be pretty well maintained. In the case of cotton, which is supported by the loan at a little under 31 cents, the growers will have a cash income out of this crop $500 millions larger than last year.

Needless to say, these various supports are inflationary. What we are saying is that as deflationary influences move into the ascendant new doses of inflation are simultaneously injected into the situation. We might say in the language of biology that as deflationary infection sets in inflationary antibodies are turned loose in the bloodstream to offset it.

Certainly these inflationary antibodies will become numerous if a real recession sets in. In addition to the supporting influences mentioned, other compensating influences will come into play promptly because they will do so almost automatically. Government income would drop more quickly and sharply than in any similar setback. For individual income taxes on the pay-as-you-go principle make up half of government revenues. At the same time expenditures would be swollen by unemployment benefits, deferred public works, public assistance, national defense, agricultural supports. It would not take much effort to produce a good-sized government deficit. If we exclude as improbable a simultaneous gold outflow, the credit authorities might have only to stay put to see abnormally easy credit conditions re-develop, and quickly. The contraction in private demands for capital, loan liquidation, and return flow of currency would all tend to produce such a result.

These are automatic compensatory devices. In addition, there are conscious measures such as tax reduction, reduction in member bank reserve requirements, etc.

Please don't draw from my emphasis of government spending in this summary any implication that I think government spending eliminates the business cycle and opens a sure road to perpetual economic progress. Neither armament expenditures nor the ECA lift our standard of living. On the contrary, they reduce it, for they take labor and materials away from the production of goods that would raise our living standards. We support the defense programs because we want security and we support ECA because we hope for future benefits. We know that both keep pressure up in the inflation boiler, and none of us is wise enough to foresee the final consequences. We also know, however, that these expenditures help support business while they last. I don't suggest that government spending could support the whole economy if private business started to liquidate, but it may have a profound influence in delaying private liquidation.

In conclusion and summary, the analogy with 1920 and such periods which many people see is deceptive. The differences are more important that the similarities. Many of us exaggerate the amount of froth that there is in the picture; we fail to give due stress to the immensely greater financial strength and the absence of any real monetary strain; and we overlook the standing commitments under the present situation.

Robert Diehl Joins Dempsey-Tegeler Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert D. Diehl has become associated with the Los Angeles office of Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. Diehl was formerly manager of the corporate trading department of Wm. R. Staats Co. Prior thereto he was with McDonald & Co. in Cleveland.

Robert Diehl

Problems in Federal Debt Management

(Continued from page 6)

ing followed by the Federal Reserve Banks.

Composition of National Debt

The facts are that we have a national debt of some $250 billion in all sorts of forms held by all sorts of holders. Over $50 billion matures or becomes optional within 12 months and will have to be refunded. Well over $50 billion is represented by E, F and G Bonds which for all practical purposes are demand obligations. About $65 billion is held by commercial banks, roughly an equal amount by individuals, over $20 billion by the Reserve Banks and over $20 billion by insurance companies. The National debt now occupies the center of the market for investment and short-term funds. Liquidity is of the essence and any situation that penalizes the owners of these obligations when converting holdings into cash must have far reaching consequences in the business system. As Mr. Allan Sproul has said "In the face of a Federal debt of over $250 billion, in all sorts of forms held by all sorts of holders, and with a high consumption, high employment economy, in which there are already severe stresses and strains, we can't treat the government security market as we might a $50 million issue of the X Y Z Corporation."

I think there can be no denying that support of the market in and of itself can be highly inflationary. But might it not be even more inflationary if a decline in quoted prices brought on wholesale liquidation of E, F and G Bonds and marketable bonds held by individuals? Might it not be too drastically deflationary if a decline in quoted prices impaired the liquidity or solvency of our commercial banks or at least caused them to adopt a highly deflationary credit policy? And what of the problem faced by the Treasury in refunding $50 billion of annual maturities plus raising the cash to redeem the E, F and G bonds which might be liquidated in wholesale quantities for psychological reasons only? In fact, I don't think it is a case of choosing between support or non-support of the market. The implications involved in the latter policy are too serious to contemplate. I agree wholeheartedly with Mr. Beardsley Ruml's statement that "it is sensible to dismiss the possibility of a 'natural' interest rate as unrealistic and to accept the fact that we will continue to have an artificial interest rate, controlled within limits determined by the purposes and powers of the public agencies that have been created for handling our fiscal, monetary and credit policies."

A careful reading of the testimony at the special session of the Congress serves to emphasize that while the inflationary aspects of the present support policies are recognized no one in authority, I think, would abandon support as a policy. Mr. McCabe told the House Banking Committee that "if it is the desire of Congress to limit the amount of government bonds the Federal Reserve Board might purchase, I would like to see it done in a direct way"—a challenge which the Committee showed no interest in accepting. Mr. Snyder in testifying before the Senate Banking Committee stated that "the Federal Reserve Board and the Treasury have continually backed the policy of supporting the 2½% long-term rate." Following this, Senator Sparkman asked "You believe that we ought to continue that support program?" to which the Secretary replied, "I certainly do."

No Free Market Likely

In my opinion we can dismiss from consideration the possibility of an entirely free market in government securities, or possibly I should say a lack of any market for government securities. As I see it, the question is at what level the market is to be supported. At present the long-term rate of 2½% is being maintained, and on Aug. 9 Mr. Snyder stated that "no change would be made in the government's policy with regard to the long-term bonds." Based on official statements and by their actions I feel that we can conclude that the present Administration is pretty well wedded to par for long 2½s. Even Senator Taft has gone so far as to suggest that "the right combination of raising reserve requirements, gradually raising the rediscount rate, and raising the interest rate on short-term government securities" might be the answer but that "the 100% guarantee of securities is such a landmark that if you drop it even to 99 you might participate a flood of selling." While it is true that a new Administration next January would not necessarily be bound by the actions and statements of the present Administration, there is no denying that a new Administration would be confronted with the same facts—facts which have caused the present monetary authorities to support the long-term rate of 2½%. Instead of 100 8/32 for Victory 2½s, a new Administration might decide on a somewhat lower price yet I doubt that a new Administration will abandon the long-term rate of 2½%. In my opinion, a bid of 98 for Victory 2½s would not mean abandonment of the long-term rate of 2½%, and I am frank to admit that I think a new Administration could lower the bid to, say, 98 with much better grace than the present Administration. Nevertheless, there is no assurance that lowering the bid for Victory 2½s to say 98 by a new Administration might not be just as risky as if done by the present monetary authorities. As Mr. R. M. Evans, a member of the Federal Reserve Board recently told a group of Kansas City bankers "The risks involved in permitting Bonds to break par are too great to the nation's economy and for that reason the board feels it is best to peg prices above par for the long-term issues." Although a new Secretary of the Treasury and a new Federal Reserve Board would not be bound by the policies and commitments of the present Secretary and Board, they would still be faced with pretty much the same set of conditions.

No Limit to Federal Reserve Support

The question has been asked quite frequently, "How long can the Federal Reserve System support the government bond market?" The answer is that the market can be supported almost indefinitely. Present excess reserves of the Federal Reserve Banks would permit purchases of some $40 billion government securities. Such purchases would increase member bank excess reserves and give them a potential purchasing power of, say $200 billion. I leave it up to you how long the member banks would hold as idle funds several billion dollars of excess reserves.

If I am correct in my diagnosis of the situation and in my conclusion that the long-term rate is to be supported at 2½%, which does not necessarily mean 100 8/32 for Victory 2½s but which precludes a bid of, say, 90 for long 2½s, then it follows that the area within which the monetary authorities are free to operate has been reduced most drastically. Stated another way, the rediscount rate and the rate on short terms can be increased only slightly without further jeopardizing the long-term rate. Already we have had an increase in the Bill rate from ⅜% to the present level, an increase in the Certificate rate from ⅞% to 1¼% and a ½% increase in the rediscount rate. My guess is that we may be nearing the upper limits of the increases which can be permitted in short-term rates without jeopardizing the long-term rate. I make this statement in full recognition of the fact that historically short-term rates often have exceeded long-term rates but when such conditions existed we had a far different set of factors operating in the money market. Under today's conditions I cannot visualize a higher rate for short-term money than for long-term money. I am inclined to go along with Mr. Evans in his statement that "I doubt that the short-term rate will be increased any further from this level."

The New Cash Reserve Requirements

Faced with the problem of maintaining the long-term rate and at the same time curbing tendencies toward excessive credit expansion, the Federal Reserve Board asked the special session of the Congress for authority to increase member bank reserve requirements. Although Mr. Parkinson, of the Equitable, seemingly would place the entire blame for excessive credit expansion on the banks and although we seem to have been singled out for the role of "Peck's Bad Boy," I do not feel that the facts support either Mr. Parkinson's reasoning or the role in which we have been cast. Indeed, one of the stated reasons for requesting the increased authority over member bank reserve requirements was "to enable the Federal Reserve System to acquire more—if necessary many more—long-term government securities to maintain the long-term yield level" so that "new reserves created by such system purchases could be absorbed through increases in reserve requirements and thus be unavailable for multiple credit expansion." Mr. Parkinson seems to have overlooked two major points—the first, that the insurance companies themselves are adding directly to the inflationary expansion of credit when they sell long governments to the Federal and invest the proceeds in corporate and municipal bonds, mortgages, etc., and, the second, that it has been their selling that has been in major part responsible for creating the reserves which permit a multiple expansion of credit to which he so strenuously objects. The facts are that between June 30, 1947 and June 30, 1948, the life insurance companies liquidated $2,356 million government securities and reinvested the proceeds in corporate and municipal bonds, mortgages, etc. From the standpoint of inflationary credit expansion, this was just as inflationary as the granting of an equal amount of bank credit. Moreover the heavy support purchases of recent weeks by the Federal Reserve System would indicate that this process of inflationary expansion of credit by the insurance companies is continuing. I cannot agree with Mr. Parkinson's statement that: "If, out of the operation of a sale by the insurance companies of their Government Bonds, there results an increase in the money supply and an inflation of our money, it is not because the insurance companies sold, but because the banking system bought." Mr. Parkinson completely overlooks the fact that the selling initiative rests with the insurance companies, that there does result "an increase in the money supply and an inflation of our money" when the insurance companies sell and that the banking system has been commended by the Secretary of the Treasury for the success attained in its voluntary program of restraining the undue expansion of credit.

By the questionable solution of raising member bank reserve requirements, the Federal Reserve System is to be permitted to inflate its government bond holdings, through purchases in large part from the insurance companies without predetermined limit, and in so doing facilitate increased lending by non-bank lenders. As suggested in the September issue of the National City Bank Letter, the reaction of the practical banker might well be "Why crack down on us so that our competitors can take the business?"

A National Monetary Commission

It is high time I think that we join Mr. Parkinson, Mr. Aldrich and Mr. Sproul in urging the creation of a national monetary commission to undertake a comprehensive review of our whole monetary and credit organization. There can be no denying that with a debt of some $250 billion all sorts of forms and held by all sorts of investors, we are confronted with new and difficult problems. The debt and the monetary expansion which it has produced are problems with which we will be faced for many years to come. The extent to which the long-term rate and with it other rates have been frozen into our economy limit the area within which monetary policy is free to operate. Use of the orthodox instruments of monetary control — open market operations and the discount rate —is limited. Increasing reserve requirements is a blunt instrument with which to do a difficult and delicate job. More over it is a "blunderbuss that hits member banks and borrowers from member banks, but leaves other credit channels wide open."

The alternative to creation of a national monetary commission will be, I fear, a day-to-day attempt to solve the problems of debt management, a muddling through, and the risk that one false move may upset the whole apple cart, with the inevitable result that we, the commercial bankers, will be the "goat" for the mistakes that may be made.

It is high time that we urge the creation of a national monetary commission to review our whole monetary and credit organization. I think we owe it to our country and to ourselves, as bankers, to do so!

Depressed Markets for High-Grade Preferred Stocks

(Continued from first page)

and preferred stocks floated by typical companies of high credit standing during the last four years.

It will be seen that up until a year ago the yield differential varied only to a minor extent from 1%, ranging from 1.17% in the case of New Jersey Power & Light to 0.85% in the case of Buffalo Niagara Electric. But since the spread has gradually increased, culminating in a difference of 1.79% in the yields given at offering prices of the bonds and preferred stock of Northern States Power.

The latter flotations followed by a short time the offering of Kansas City Power & Light preferred, which was priced to yield only 1.15% more than the company's bonds. Only a part of that issue was placed at the offering price, and current market quotations are about six points lower. The existence of unsold blocks of Kansas City Power & Light preferred in dealers' hands undoubtedly influenced the bidding for Northern States Power preferred. The latter was priced for public sale to yield a good ¼% more than yields given by other issues of comparable quality, and by the company's outstanding 3.60% preferred. Such was the low estate of the preferred stock market, however, that it was a good two weeks after the original offering date before the new Northern States Power preferred was completely distributed.

The extent to which the "bear market" in preferreds has carried is apparent when the yield changes in the past two years are translated into dollar prices, as shown in Table II.

An examination of basic market conditions will provide clues as to why this unprecedented change has taken place. It will disclose that preferred stocks have been effected by a combination of adverse factors, some of the most important of which may be of a temporary nature.

What Investors Make the Preferred Stock Market?

As is the case with high-grade bonds, the largest aggregate holdings of preferred stocks are in the portfolios of life insurance companies, although in most cases preferreds constitute only a very small percentage of their total invested assets. Eleemosynary funds and educational institutions

TABLE I

TYPICAL PUBLIC OFFERING OF HIGH-GRADE BONDS AND PREFERRED STOCKS

Date	Amount (millions) $	Issuer	Coupon or Div. %	Term yrs.	Offering Price	Yield %	Spread in Yield %
5-17-44	9.0	New Jersey Power & Light 1st Mtge.	3	30	104.625	2.77	
5-17-44	3.0	Preferred	4		101.50	3.94	1.17
11- 1-44	24.5	Metropolitan Edison 1st Mtge.	2⅞	30	101.375	2.81	
11- 1-44	12.5	Preferred	3.90		102.625	3.80	0.99
4-12-45	50.0	New York Power & Light 1st Mtge.	2¾	30	102.50	2.63	
5-10-45	24.0	Preferred	3.90		104	3.75	1.12
7- 2-45	25.0	Union Oil of California Deb.	2¾	25	101	2.70	
7- 2-45	25.0	Preferred	3¾		100	3.75	1.05
10-24-45	13.0	Union Electric (Mo.) 1st Mtge.	2¾	30	101.02	2.70	
10-24-45	4.0	Preferred	3.70		101.75	3.64	0.94
12-13-45	56.4	Buffalo Niagara Electric 1st Mtge.	2¾	30	102.06	2.65	
1-10-46	35.0	Preferred	3.60		102.85	3.50	0.85
12-11-46	30.0	Philadelphia Electric 1st Mtge.	2¾	35	101.35	2.69	
12- 5-46	30.0	Preferred	3.80		104.11	3.65	0.96
12-13-46	36.0	Kansas City Power & Light 1st Mtge.	2¾	30	101.43	2.68	
12-13-46	10.0	Preferred	3.80		102.70	3.70	1.02
1-22-47	13.0	N. Y. State Electric & Gas 1st Mtge.	2¾	30	102.875	2.62	
	15.0	Preferred	3¾		102	3.68	1.06
6-26-47	15.0	May Dept. Stores Deb.	2⅝	25	101	2.57	
6-26-47	9.0	Preferred	3¾		100	3.75	1.18
2-18-48	25.0	Philadelphia Electric 1st Mtge.	2⅞	30	99.25	2.91	
2- 5-48	15.0	Preferred	4.30		100	4.30	1.39
3-24-48	12.0	West Penn Power 1st Mtge.	3	30	101.19	2.94	
3-24-48	5.0	Preferred	4.20		101.205	4.15	1.21
6-17-48	12.0	Kansas City Power & Light 1st Mtge.	2⅞	30	101.515	2.80	
6-17-48	8.0	Preferred	4		101.25	3.95	1.15
7-15-48	10.0	Northern States Power 1st Mtge.	3	30	101.59	2.92	
8-11-48	20.0	Preferred	4.80		102	4.71	1.79

TABLE II

	1946 Yield	1946 Price	1948 Yield	1948 Price	Change Yield	Change Price
30-year 2¾% bond	2.60%	103.11	2.90%	97.01	+0.30%	—6.10
High-grade 3¾% preferred	3.60%	104.17	4.40%	85.23	+0.80%	—18.94
Differential	+1.00%	+1.06	+1.50%	—11.78	+0.50%	—12.84

— probably more interested in production of generous income and less in maintenance of principal than most other types of investors—have also had an increasing interest in preferreds over the last several years.

But of all types of institutional investors, those that, by and large, have maintained the largest proportions of their portfolios in preferred stocks have been the capital stock fire and casualty insurance companies. For these companies preferred stocks have a substantial tax advantage over bonds that has assumed greater significance as income tax rates have increased.

At present rates for corporations having taxable income in excess of $50,000, interest received is subject to full normal tax of 24% and surtax of 14% unless specifically exempted (as in the case of partially tax-free government and fully-exempt municipal bonds). Dividend income, however, is 85% exempt to the corporate recipient.

This means that a corporation receiving preferred stock dividends pays a tax thereon equivalent to but 5.7% (38% tax on 15% of the dividend), compared to a full 38% on taxable interest income.[1] Because of this feature, a 1% gross differential between bond and preferred stock yields amounts to 1¾% or more after taxes, a 1½% gross differential to 2.20% or more. In order to procure the same retained income, a company need invest only 46½% as much in preferred stocks at 4.25% as in bonds at 3%.

But if preferred stocks have an impressive tax advantage over bonds for fire and casualty companies, they have other disadvantages that have carried more weight in the past few years.

Insurance companies are required, for statement purposes, to evaluate preferred stock holdings at market prices as of a certain date, whereas they may evaluate all bonds given at least the fourth best rating by rating agencies at cost, modified by amortization of discount or premium. Thus, they know that unless the security of a bond becomes impaired they can foretell what value they will be permitted to ascribe to it in their statements, regardless of market. But in their holdings of preferred stocks, no matter how high their character, their surplus on a statutory basis will fluctuate with the wide and unpredictable market changes to which all fixed-income securities (except short-term) are subject. Inasmuch as the surplus account is a strong selling point for an insurance company, this is a factor that only the strongest companies can afford to overlook. Life insurance companies, in which surplus traditionally bears a low ratio to invested assets, are particularly sensitive to this.

Early in 1946 several insurance associations joined together in presenting to the various Insurance Commissioners a plan for less onerous valuation of preferred stocks meeting certain high quality standards, consisting of a yearly adjustment in valuation by only a part of the change in market price. Although the proposition was clearly and impressively presented, the Commissioners to this date have taken no action upon it, and it is not known whether efforts along these lines will be revived.

Another factor limiting the market for preferred stocks is the ruling in New York State—where most of the largest life insurance companies are domiciled—that a life insurance company may invest in only 10% of the stock of any one company. Since the unit investments of the largest companies are so substantial, this has the effect of restricting their participation to only the largest preferred stock issues. On the other hand, there are countless examples in which a single insurance company has purchased the entire bonded indebtedness of a small company.

Factors Affecting Markets in the Past Few Years

In 1945, preferred stocks became, for the first time, legal investments for life insurance companies in several important states. Since the common stock market continued firm through the middle of 1946, strong statutory surpluses of many insurance companies made them less wary of investments requiring valuation at market. With the cessation of Government War Loans, life insurance companies were hard pressed to find sufficient investment outlets. Preferred stocks were scarce, and were bid up in price.

But in the past two years has been adversely affected by a sharp contraction in demand, and a contemporaneous increase in supply, bringing a complete reversal of the factors that led to considerable strength in 1945 and the early months of 1946.

Factors of contracting demand may be listed as follows:

(1) Life insurance companies, for the first time in years, found ample investment outlets in bonds and mortgages, at improved yields.

(2) Insurance companies were averse to accepting risks of further decreases in statutory surpluses, due to the requirement that stocks be valued at market. Surpluses of fire and casualty companies experienced a three-barreled attack:

(a) From abnormally high loss ratios.

(b) From vastly expanded underwritings, necessitating the establishment of increased unearned premium reserves.

(c) From the break in common stock prices in the fall of 1946.

(3) Because of underwriting losses in 1946 and 1947, many fire and casualty insurance companies had no income tax liability, and therefore were not interested in the tax advantage of dividend income.

Meanwhile, the supply of preferred stocks increased, because of:

(1) Flotations of preferreds by corporations to provide funds for expansion and modernization, particularly where policy or previous borrowings made incurment of debt inadvisable. This has been especially true among utilities, for which regulatory bodies prescribe limits to the proportion of debt in capitalization.

(2) Sales by insurance companies with small surpluses, to forestall any further depreciation in statutory valuations.

(3) Heavy tax-loss selling, particularly toward the end of 1947. An unusually large proportion was in preferred stocks; common stocks had followed a sideways pattern during the year, and increases in dividends made holders of common stocks less prone to dispose of them.

The hardening of interest rates on long-term bonds in the last two years has been relatively moderate, because of the determination of the Federal Reserve Bank to peg long-term governments at a rate slightly below 2½%. This direct support has naturally lent considerable stability to the market for high-grade corporate bonds as well, but its influence is not yet apparent in the preferred stock market.

It is a well-established fact that unsettlement in any market often breeds further unsettlement. Such has been the case in the market for preferred stocks. The relative depression in prices of preferreds has been intensified by the fact that several new issues this year have been "sour." In this connection, there is ample evidence to support the view that competitive bidding is ill-adapted to preferred stock issues, often leading to over-pricing and subsequent pressure on the entire market. Indeed, one of the leading underwriting firms has indicated that it will henceforth participate only in negotiated preferred stock issues.

Are These Factors Permanent?

Preferred stock flotations may continue to be numerous, having a tendency to limit any revival in their market. But it would appear that as a result unusual buying opportunities may be presented, either in the form of above-normal rates of return, or in the form of purchase or sinking funds. The latter have been common among recent issues, countering the reluctance of many investors to acquire preferred stocks because of their absence of maturity or market support.

There are signs that the cycle of abnormally high losses for fire and casualty companies may have run its course, alleviating one source of pressure on surpluses. A better common stock market could have the same effect.

A combination of both could quickly lead to a revival of interest in preferred stocks on the part of such companies. Furthermore, the rates charged for many types of insurance have been increased, more nearly to compensate for abnormal loss ratios, and several companies have rebuilt their capital accounts by sale of additional common stock.

If Federal Reserve support is successful in stabilizing the long-term bond market, its effects should inevitably reach into the preferred stock market as well. In this connection, it is important to remember that yields on short-term bonds have also advanced relatively to those of long-term bonds. For taxable insurance companies there is much to recommend investment for fixed income in a combination of short-term bonds and preferred stocks, rather than in long-term bonds, since taxes tend to minimize the yield spread between short- and long-term bonds, and to widen it between long-term bonds and preferreds. By such a combination, a company may decrease its aggregate exposure to market decline if interest rates harden further, and in many cases provide short-term security for reserves, while maintaining or increasing retained income. The following shows how the yield advantage of such a combination has grown since the high prices in 1946:

	Yields at 1946 Highs		Recent Yields		Increases	
	Gross	After corporation taxes	Gross	After corporation taxes	Gross	After taxes
U. S. Treasury 2½s, 12-15-72-67	2.21%	1.37%	2.48%	1.54%	0.27%	0.17%
5-Yr. taxable governm'ts*	1.06%	0.66%	1.85%	1.15%	0.79%	0.49%
High-grade preferreds*	3.34%	3.15%	3.95%	3.72%	0.61%	0.57%
Average	2.20%	1.90%	2.90%	2.43%	0.70%	0.53%
Difference	—0.01%	+0.53%	+0.42%	+0.89%	+0.43%	+0.36%

*Computed—preferreds on seasoned issues.

At 1946 highs a tax-free investor, in order to provide $1,000 annual income, would have had to invest about $45,454 in either Treasury 2½s, or equal amounts of 5-year Governments and preferreds. At present, he would derive $1,000 income by investment of $40,323 in Treasury 2½s, and of only $34,483 in the combination —$5,880 (or 14½%) less.

The corporate investor at 1946 highs could have created $1,000 in income after tax by investing $72,993 in Treasury 2½s, or $57,895 in the combination ($15,098 less). Now it would require a $64,948 investment in Treasury 2½s, but only $41,153 in the combination, or $23,795 less.

An examination of past market movements, furthermore, demonstrates the reduction in exposure to market risk provided by the investment of half as much money in a high-grade preferred stock as in a long-term bond, the balance being placed in short-term securities. For example, the following alternative investments of about $100,000 may be imagined.

	Approximate present price	Value	Yield	Annual Income Gross	Annual Income After corporation taxes
$78,000 Norfolk & Western Cons. 4s, 1996	128½	$100,230	2.89%	$2,987*	$1,796*
$49,000 U. S. Treasury 2s 12-15-54-52	101 1/32	49,505	1.74%	861*	534*
2,000 shares Norfolk & Western 4% preferred	25½	51,000	3.92	2,000	1,886
		$100,505		$2,861	$2,420

*Amortized.

It will be noted that gross annual income would be practically the same in each alternative; after corporation taxes it would be increased by $624, or almost 35%.

The following table compares the variations from present values, at high and low prices of the last 16 years, of $78,000 Norfolk & Western 4s and 2,000 shares Norfolk & Western preferred:

CHANGE FROM PRESENT VALUE

	At Yearly Highs		At Yearly Lows	
	$78,000 Norf. & Wstn 4s	2,000 shs. Norf. & Wstn pfd.	$78,000 Norf. & Wstn 4s	2,000 shs. Norf. & Wstn pfd.
1947	+$5,947	+$11,500	—$1,560	+$1,000
1946	+11,310	+13,500	+2,245	+8,500
1945	+6,435	+12,250	+3,900	+8,000
1944	+4,680	+10,375	+390	+7,250
1943	+3,120	+10,000	—3,622	+5,500
1942	—97	+7,250	—3,217	+3,000
1941	+780	+8,750	—3,340	+3,500
1940	—	+7,500	—8,385	+1,500
1939	—3,510	+5,500	—10,725	+750
1938	—5,850	+4,000	—13,650	—1,000
1937	—5,070	—6,000	—12,870	—
1936	—3,510	+6,500	—10,530	+1,500
1935	—8,970	+3,000	—14,040	—1,500
1934	—13,650	—750	—23,205	—10,000
1933	—21,840	—7,250	—32,370	—14,000
1932	—22,230	—10,250	—38,805	—18,500
16-Year Average	—$3,278	+$5,492	—$10,524	—$213

At every point noted above, 2,000 shares Norfolk & Western preferred had a relationship to present market value superior to that of $78,000 Norfolk & Western 4s, the market advantage of the smaller investment in the preferred being greatest in poor markets. It is emblematic of the "fall from grace" of high-grade preferreds (and somewhat of an answer to those who fear market depreciation in preferreds) that in each of the last 13 years Norfolk & Western preferred has at some time sold higher than its present quotation. The high price of Norfolk & Western 4s, on the other hand, has been lower than the present price in 9 of the 16 years. The yearly low prices of Norfolk & Western preferred have averaged 99.6% of its present value, while those of the bonds have averaged but 89.5% of present value.

To be sure, the comparison of income has been made by applying amortization of premium to the bonds, no similar treatment being feasible in the case of the preferred. This, of course, is a factor to be considered in comparisons of market prices over a period of time. From their present price, Norfolk & Western 4s would be amortized down in price by about 9½ points in sixteen years. This would amount to about $7,400 on $78,000 bonds. The relative market advantage of 2,000 shares of preferred over $78,000 bonds, however, has averaged, over the sixteen years, $8,770 at the highs and $10,311 at the lows.

The Outlook

If rates on long-term bonds continue to be maintained at low levels, it seems reasonable to expect that a stabilizing influence will be extended to high-grade preferred stocks. The latter are now available at unusually wide yield differentials from long-term bonds; in conjunction with short-term bonds they provide a remunerative medium with considerable merit from the standpoint of market protection—particularly for taxable insurance companies.

Over the longer term, there is still a possibility that a less onerous valuation procedure may be prescribed for insurance company holdings of high-grade preferred stocks. Of perhaps greater importance, however, is the contingency that when the final post-war tax bill is written there may be an end to double taxation of dividends. If corporations were granted tax exemption to the extent that they pay dividends, preferred stocks would be more attractive to those now disinclined to buy them because corporation income taxes are levied after interest, but before dividends. If, on the other hand, dividends became exempt to the recipients, then preferred stocks would have tax-free status, and compete with tax-free bonds. In either case, it is manifest that the market for preferred stocks would be greatly broadened.

A common argument in the past against institutional acquisition of preferreds was that it was too difficult to buy large blocks without undue market disturbance. From this standpoint alone—the supply now being greater than the demand—an unusual buying opportunity for institutions may now exist.

[1] Public utility operating companies are allowed exemption from the 14% surtax to the extent that they pay dividends on preferred stocks outstanding prior to September, 1942, or issued to replace securities outstanding before that date. The corporate recipient of dividends on such issues, therefore, is allowed no exemption from surtax, the 85% exemption being applied only to the 24% normal tax. Thus the effective rate in such cases is 17.6% (24% normal tax on 15% of the dividend equals 3.6%, plus 14% surtax). Utility issues for "new money" provide full 85% exemption of dividends to the corporate recipient.

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MINNEAPOLIS, MINN. — William J. Lau has become associated with J. M. Dain & Co., Rand Tower, members of the Minneapolis-St. Paul Stock Exchange and the Chicago Stock Exchange, in their municipal department. Mr. Lau was formerly manager of the trading department of C. S. Ashmun Co.

Wm. J. Lau

As We See It

(Continued from first page)

cultural and other producers in the nation. This "parity" price, or rather this whole set of "parity" prices, soon came to be accepted by the New Deal managers as a sort of measure of the economic rights of the farmers. Generally speaking, the relationship of prices thus envisaged was not realized prior to the outbreak of World War II despite the efforts of the Roosevelt regime. When war came upon us, and the attendant need for greatly enlarged quantities of farm products, a system known as "support" operations was developed. It consisted of a sort of loose guarantee that the farmer would receive a large part of "parity" (usually about 90%) for most of his products.

Now a Real Problem

War conditions and postwar scarcity have until recently, for the most part, relieved the Federal Government of the necessity of taking action under this arrangement, although by indirection at one time or another prior to the formalization of the support program it did in fact employ a type of support operations, and in certain spectacular instances, notably potatoes and eggs, various means have been employed from time to time since the war to bolster prices. But the large crop yields this year and the rising costs and prices in non-agricultural industries have succeeded in raising "parity" levels and "support" levels of prices at the same time that the market prices of a number of the major farm crops have been declining substantially.

The net result, or one of them, is that the Federal Government is faced with the necessity, or thinks it is, of large support operations. Several of the major crops are below "support" levels and more are below "parity." Meanwhile, uncertainty about the future of farm products, coupled with a definitely rising tendency in many manufactured goods due to the effect of "third round" wage increases, strongly suggests that this task of "supporting" farm markets is not likely to be a strictly temporary one. This "necessity" is partly political, of course, but for the remainder of this year has also the support of a sort of promise made the farmer for the duration of the war and two years thereafter. What the newly elected Congress will do next year no one at this time knows, of course, but as the law now stands support commitments of one sort or another extend far beyond the end of this year.

Time for Realistic Thinking

The time has come when we should give the fundamentals of this whole system much more careful and dispassionate thought than we have ever been inclined to give it in the past. The tendency at the moment, in the midst of a national political election, is to take the easy way of asserting that production of farm products must be maintained in order to meet the needs of a hungry and impoverished world. Of course, the way to assure the world of this volume of products, at least some of which it does not want, is to continue to pay the farmer large bonuses to produce them. This, we repeat, is the campaign "line" of virtually all candidates for office. Since it is the campaign preachment, the problem of considering the matter with a fresh and more realistic mind after the elections will be the more difficult.

Yet there must be an end to this sort of thing somewhere. The whole idea is full of infirmities and the execution productive of exceedingly expensive anomalies, absurdities and dangers. The fundamental notion that government is under any sort of obligation to restore and maintain indefinitely the price relationships between farm and other commodities which existed prior to World War I is absurd on its face. If there is anything in the economic system which is historically forever changing it is the relationship of one price to another or one set of prices to another. It is nature's way, or one of nature's ways, of keeping the economic system producing what people want and are willing to pay for. It likewise reflects changes in tastes, requirements and costs of production.

A Losing Fight

Efforts to prevent these normal, healthful, even necessary changes as time passes are doomed to ultimate failure. Those reformers who undertake it are guilty of the sin they often ascribe to others, that of trying to turn the hands of the clock back — or of stopping the hands of the clock altogether. But massive efforts to accomplish this impossible feat of necessity set up rigidities in the economic system which can not fail to prevent it from functioning as it should. When either the demand for farm products declines, or the production of farm products so increases that prices turn downward and remain down in relation to other prices, the remedy, and the only remedy that is constructive, is the one provided by nature — the shifting of effort from unprofitable to more profitable spheres of business activity. What present policy accomplishes in one way or another is to induce larger production of certain things than the world wants or at any rate is prepared to pay for. Farmers, and farm laborers, are thus kept at pursuits which do not duly add to the well-being of the world.

Here is a situation which is quite typical of all the restraints placed upon nature and natural forces in the economic world by those who set themselves up, with the taxpayers' funds, to decide what the people want or ought to have. When, as is usually the case, policies and programs are determined also by the vote-getting qualities of actions taken, the situation is even worse. We find similar interferences with natural forces in the multitude of controls and regulations which now govern operations in the securities markets, the field of labor relations, the money market, and a dozen others. We are really well endowed by nature, as we are so often told. Historically we have made good use of what nature provided us, but we can not afford to continue indefinitely to waste our heritage as we have been doing.

The New Pattern of International Trade

(Continued from page 17)

and dollar exchange balance, or unless they have a favorable yearly balance of payments position with hard currency countries. You are going to hear that term, "hard currency," on a number of occasions in discussions and articles in the future and I think it might be well for me to tell you our understanding of what a hard currency is.

The actual meaning of interpretation of the term "hard currency" has changed materially in this postwar period. Before the war, a hard currency was defined briefly as a currency freely exchangeable for gold on demand and freely salable in the exchange market for other world currencies. At the moment, there are practically no currencies in the world that can be exchanged for gold; and this applies, of course, to our own country. As a consequence, the definition has narrowed and we now consider a hard currency as one that can be freely sold in the exchange market, without restriction, for other world currencies.

Hard Currencies

The number of hard currencies existing in the world today is limited to a few countries such as the United States, Switzerland, Mexico, Cuba, Venezuela, the Philippine Islands, and there may perhaps be one or two more in that category.

Certain steps may be taken for the rehabilitation of the economies of countries and for the creation of dollar exchange. For example, loans or credits of one kind or another—whether they be extended through private or governmental channels—play an important part in world economy and in international trade. But if these loans and credits are improperly used within the foreign country, they become an additional strain on foreign exchange resources, and an additional burden to the country to provide exchange for amortization or payment of interest on the debt.

International Loan Agencies

Some loans and investments are made through private channels and those banks with international operations also make a substantial contribution through the extension of lines of credit to foreign banks throughout the world. In fact, facilities open to buyers abroad to obtain a letter of credit would be substantially reduced were it not for the fact that American banks still are willing to extend credit to foreign banks throughout the world. The greater part of the loans and credits available today are extended through such agencies as the International Bank for Reconstruction and Development (known as the World Bank), the International Monetary Fund (known as The Fund), the Export-Import Bank (known as Ex-Im. Bank) and, to a certain extent, through the Economic Cooperation Administration (Marshall Plan).

Were it not for the existence of these agencies, the volume of our exports in the postwar period would be substantially less. If loans and credits are properly used, and by that I mean if they are used for the extension and improvement of transportation and industry, for the stabilization of currency, for the purchase of materials essential to the economy of a particular country, normally they should improve its economy and strengthen its position in world trade.

During the period of the war, we disbursed abroad some billions of dollars—some I would say discreetly and some indiscreetly—in the form of gifts and loans. But whether we can continue to stand the strain of gifts and loans over a further period of years, is questionable. While it is appreciated that our action from an economic viewpoint was motivated by a desire to enable participating countries to rehabilitate and re-establish themselves in the world picture, nevertheless the time is coming when these nations must rise or fall, depending on their own efforts.

We in the United States can assist in this world picture by importing goods and services whenever and wherever possible. There must be many commodities that we could import to the advantage of the country as a whole and to the advantage and benefit of the individual consumer. I believe we could do that without harming our own economy. Substantial purchases by us of raw materials and goods from foreign countries would create much-needed dollar exchange and enable them to reduce their borrowings, to service existing debt and pay for their imports from the United States.

Eventually, as in prewar years, the volume of our export trade out of this country will parallel our import trade, with some minor differences between exports and imports. In other words, I feel that with an import business of $6 billion to this country, we could easily support an export business of $8 billion without too many gifts or loans.

Exchange Devaluation Fears

In addition to actual shortages of United States dollars in various countries of the world, the instability of world currencies and the fear on the part of the American exporter that currencies will be devalued while dollar drafts are outstanding on foreign buyers, also has had the effect of decreasing foreign sales. Export sales on a draft basis most generally are made in United States dollars, and it is the foreign importer's obligation to pay dollars. In the case of severe devaluation, however, the importer's financial position within his own country may be so seriously affected that he may be unable to deposit additional local currency to purchase his dollars; or, he may not consider it his obligation to do so. This has happened many times in the past and exporters have suffered severe losses.

The question naturally arises as to what protective measures can be taken by the American exporter under such circumstances. This is one of the commercial risks which must be assumed by the American exporter when he ships abroad on any basis involving the extension of credit. And, while it cannot be wholly eliminated, it can be minimized by checking credits carefully, by keeping informed on exchange and financial conditions in the various countries of the world, by selling on a sight basis rather than on a time-draft basis, and by having the collecting bank in the foreign country obtain from the drawee a guarantee on exchange differences; that is, between the time the local currency is deposited as a provisional payment against the collection and the actual time of the remittance of the dollars.

This threat of devaluation of course is serious to the American exporter. We have already seen it happen in the Argentine, in Mexico, in Uruguay, in a backhanded way in Colombia, and in Peru. Of course, we have also seen devaluation of currency in France and Italy.

This instability of world currencies is also a great deterrent to world trade and leads to an unwillingness on the part of many countries to accept payments for their own exports to another foreign country except in United States dollars. Thus, trade between foreign countries is stifled by reason of lack of dollar exchange or it is reduced to whatever limited volume may be arrived at through bilateral trading agreements.

The United States Government is fully aware of this drag on world recovery, and in view of the important part that the Economic Cooperation Administration aid will play in export trade and world recovery, I would like to read just a few sentences from the requirements of ECA, which I believe are very pertinent.

This states in part: "The extension of aid to Europe by the United States is made contingent upon continuous effort of the participating European countries to establish a joint recovery program. This program is based upon each country taking financial and monetary measures necessary to stabilize its currency, establish or maintain a valid rate of exchange, and generally to restore or maintain confidence in its monetary system; cooperating with other participating countries to increase interchange of goods and services among the participating countries, and to reduce barriers to trade among themselves and other other countries."

Under the Economic Cooperation Administration plan, 20% of the funds available during any current year must be used as loans to participating countries. For the balance of 80%, the ECA ap-

proves the purchase of specific commodities to participating countries, but in no sense is this to be considered as a grant to individual purchasers within the country.

Individual purchasers must pay for their imports in the currency of the country, for all goods financed by ECA, and the nation to which the commodity is sent must deposit a commensurate amount of local currency funds in an account to be used for the recovery of the country under the direction of ECA.

This requirement should have the result of reducing internal debt in the participating countries and strengthening currencies. But we cannot do the whole job in this country. Each country should take steps to help itself by reducing government expenditures, by balancing budgets, by encouraging industry and exports, and by taking all steps necessary to restore world confidence in its own currency.

Position of Great Britain

The importance of Great Britain in the world picture should not be minimized. Prior to World War II, the British Empire (and I say British Empire, comprising the various countries around the world) absorbed a substantial part of our export business; in fact, in the years 1919 to 1939, I believe the figures show that they imported about 41% of our total exports.

As a result of the impact of the war, Britain is finding it very difficult to regain her important position in world trade and to restore her balance of payments equilibrium. In 1947, the statement was made in many quarters that Great Britain was headed for national bankruptcy; but within recent months the position of the country has materially improved, and it is hoped that conditions will improve to a point where they can regain their previously important position in world trade, at which time export and import restrictions may be relaxed and trade with the United States increased.

Perhaps I should also mention here, in passing, the effect on international trade of the high prices that exist in this country. The high prices here have materially reduced the value of the dollar to importing countries, in the sense that they could import relatively less. That was one of the important factors in the loan of $3¾ billion to the United Kingdom; that is, the fact that they had to pay such high prices for goods and materials imported from the United States.

The unhappy state of politics throughout the world in the last few years should be mentioned as one of the factors that has slowed world rehabilitation and has placed a damper on international trade. Had it not been for the obstructive tactics of Russia, world trade would have been much farther advanced and much farther along the road to recovery.

It is no secret, of course, that conditions throughout the world are extremely chaotic. But we must remember that the world has just gone through the most disastrous and devastating war in the history of the world. It is only natural to expect that a return to normalcy will be slow and discouraging. However, I feel that we are making progress, and while many knotty problems still remain to be solved before world peace is attained, and before the world gets back on a multilateral trading basis, I believe we are headed in the right direction.

The State of Trade and Industry

(Continued from page 5)

added to the list for preferred treatment, chances of "good" steel distribution faded. The capricious attitude of some Congressmen on allocations, first seeming to want a voluntary setup and then switching to stern pronouncements that maybe government controls were the answer followed by championing plans to return steel dividing to the industry, have left steel executives in a quandry.

The cost of some automobile steel has taken another jump with Great Lakes Steel Corp., advancing the cost of hot-rolled sheets and strip by a figure estimated at between $13 and $15 a ton by increases in extra charges with no change in base prices. Other steel producers are now busily studying their costs on these products and if they come up with figures akin to those of National Steel Corp., they are also likely to revise their extra charges on hot-rolled sheet and strip too. Weirton Steel Corp., also a subsidiary of National Steel, made similar advances.

Defense requirements reaching steel mills are not up to the quotas set aside for this use. In recent weeks the tempo of such orders has quickened. But with most steel concerns only 10% to 50% of the quotas have been used up so far. More tonnage for military orders is expected before the end of the fourth quarter.

There is every indication that defense steel and other essential programs will run smack into domestic steel orders early next year. There is no chance that quotas will be any bigger in the first quarter of 1949. The reverse may be true, "The Iron Age" concludes. As a consequence Detroit automakers are concentrating heavily on conversion plans—both those in effect and any new ones that can be set up.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 98.5% of capacity for the week beginning Oct. 11, 1948, representing a rise from the preceding week of 1.0 points, or 0.1%. Operations this week are scheduled at the highest rate since May 15, 1933, when the nation was engaged in a two-front war and the steel operating rate was 99.2%. A month ago the indicated rate was 96.1%.

This week's operating rate is equivalent to 1,775,400 tons of steel ingots and castings compared to 1,757,400 tons one week ago, 1,732,200 tons a month ago, 1,693,900 tons, or 96.8% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT SHOWS SUBSTANTIAL RECOVERY IN LATEST WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 9, was 5,481,632,000 kwh., according to the Edison Electric Institute. This was an increase of 33,078,000 kwh. above output in the preceeding week, and 523,570,000 kwh., or 10.6% higher than the figure reported for the week ended Oct. 11, 1947. It was also 986,412,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS MODERATELY IMPROVED IN WEEK

Loadings of revenue freight for the week ended Oct. 2, 1948, totaled 908,581 cars, according to the Association of American Railroads. This was an increase of 610 cars, or 0.1% above the preceding week this year. However, it represented a decrease of 33,874 cars, or 3.6% under the corresponding week in 1947, but an increase of 1,413 cars, or 0.2% above the similar period in 1946.

AUTO OUTPUT ADVERSELY AFFECTED BY FORD AND GENERAL MOTORS LOSSES

Production of cars and trucks in the United States and Canada dropped to 119,490 units from 121,475 (revised) units the previous week, according to "Ward's Automotive Reports."

Losses last week by Ford and General Motors divisions more than offset gains by Chrysler, Packard, Hudson and Willys-Overland, "Ward's" stated.

Output in the similar period a year ago was 98,978 units, and 79,065 units in the like period of 1941.

This week's output consisted of 89,213 cars and 24,087 trucks made in the United States and 4,005 cars and 2,185 trucks made in Canada.

BUSINESS FAILURES TURN LOWER

Commercial and industrial failures dipped to 107 in the week ended October 7 from 112 in the preceding week, Dun & Bradstreet, Inc. reports. Casualties exceeded those in the comparable weeks of 1947 and 1946 but were less than one-half the number in prewar 1939.

Failures with liabilities of more than $5,000 totaled 82 compared with 96 in the previous week and 56 a year ago. Those involving liabilities exceeding $100,000 numbered 11. Failures under $5,000 increased to 25 and compared with 16 last week and six in the corresponding week of 1947.

Retail trade casualties increased and were almost one-half the week's total failures. In all other industry and trade groups failures were down slightly.

The Pacific States reported 40 business casualties, the most in this area in six years and nearly twice as many as in any other region.

WHOLESALE FOOD PRICE INDEX AT LOWEST LEVEL IN FOURTEEN MONTHS

Continued weakness in some foods, particularly meats and livestock, resulted in a further sharp decline in the Dun & Bradstreet wholesale food price index. Down 19 cents in the week, the index for Oct. 5 stood at $6.51, or a drop of 2.8% from $6.70 a week ago. This was the lowest the index has been since July 22, 1947, when it was $6.48. It represented a total decline of 44 cents, or 6.3%, from $6.95 recorded three weeks ago on Sept. 14. Compared with the $6.83 for the corresponding date a year ago, the current figure shows a decrease of 4.7%.

Influential in this week's decline were lower prices for corn, oats, barley, beef, hams, bellies, lard, cheese, sugar, cottonseed oil, potatoes, rice, hogs and lambs. Moving upward during the week were flour, wheat, rye, butter, cocoa, raisins and steers.

COMMODITY PRICE INDEX CONTINUES MODERATELY LOWER TREND IN LATEST WEEK

Continuing the downward movement of the past few weeks, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., showed a further moderate drop in the latest period. The index figure fell to 271.37 on Oct. 5, from 273.88 a week previous, and 281.85 on the corresponding date a year ago.

Leading grain markets were comparatively steady following the sharp declines recorded a week ago.

Trading volume in grain futures on the Chicago Board of Trade totaled 104,963,000 bushels last week. This was about unchanged from the previous week, but it was less than half the 298,187 bushels sold during the corresponding period of last year. Cash corn prices held relatively steady. Corn futures hit new seasonal lows early in the week but rallied somewhat in late dealings.

With harvesting just getting under way in many areas, country offerings of both new and old crop corn have been relatively light.

Many in the trade fear that the crop is so huge that farmers will be forced to sell large quantities of the grain soon after harvest, owing to lack of storage room.

Wheat prices held in a narrow range. Interest in the cash grain was quite slow despite continued heavy purchasing by the government. Demand for flour was spotty with prices up slightly for the week. Lard prices were fairly firm, but hog quotations broke sharply to the lowest level since last July under the impact of heavy market receipts. Steers held firm with marketings somewhat smaller than a week ago or a year ago.

Domestic cotton markets remained steady during the past week. Daily fluctuations held within a narrow range with both the spot and nearby futures contracts scoring slight net advances for the week.

Trading volume last week reached the highest level of the season, totaling 254,600 bales in the ten spot markets, as against 215,800 bales the previous week, and 324,700 bales in the corresponding week a year ago. Foreign inquiries were substantial; France was reported seeking 100,000 bales of the staple for delivery this month. A steadying influence was the continued heavy movement into the government loan stock. The latest report by the CCC showed total loan entries for the season through Sept. 23 of 348,825 bales, thus indicating a movement into the loan during the week of 133,852 bales. This compared with entries of 101,241 bales during the preceding week.

The cotton parity price for mid-September declined slightly to 31.00 cents per pound, from 31.12 a month ago. This marked the first drop in the parity price level since last February.

Demand for cotton textiles remained rather slow. Although some gray goods constructions showed further easiness, the undertone in class A print cloths showed improvement.

While prices continued nominally firm, trading in the Boston wool market remained quiet. Mills appeared to be well covered and dealers continued to maintain a waiting attitude. Trading in the Australian wool auctions was erratic, with prices again slightly easier.

RETAIL AND WHOLESALE TRADE MODERATELY HIGHER FOR WEEK AND YEAR

Cooler weather in many parts of the country in the period ended on Wednesday of last week was reflected in a favorable consumer response to promotions of fall and winter merchandise and in increased food consumption. The dollar volume of consumer buying slightly exceeded that of the preceding week and was moderately above that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current review of trade. While there was some continued price resistance, consumer interest in good quality merchandise remained evident.

Women's and men's heavy fall and winter apparel were in large demand the past week. Consumer interest in women's furs continued to be generally limited, but women's untrimmed fitted coats and fur-trimmed coats remained popular. Zip-in lined coats were well received as was true of women's tailored gabardine suits. Men's apparel and furnishings were frequently requested.

The consumer demand for most foods increased slightly during the week with a fractional increase in the volume of meat consumption in many parts of the country following numerous recent announcements of price cuts.

Fresh fruit and vegetable volume rose slightly, but demand for dairy products decreased moderately. The volume of canned and frozen foods rose fractionally in many localities.

Retail volume in consumer durable goods showed a moderate increase last week. Curtains, draperies and other home furnishings sold well. Furniture and hardware volume was steady at a high level with consumer demand for washers, ranges and small electrical appliances reported to have declined in some sections of the country. Consumer interest in television sets continued at a high level. The demand for steel pipe, carpenters' tools and other steel items remained very high.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1% to 5% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England 2 to 6, East and Middle West 1 to 5, South 3 to 7, Northwest 4 to 8, Southwest and Pacific Coast 0 to 4.

Total wholesale order volume rose slightly during the week and it continued to be fractionally above that of the comparable 1947 week. Many retailers continued to re-order for nearby and prompt deliveries of fall and winter merchandise in efforts to replenish current inventories. The buyer demand was centered largely in medium to moderately priced merchandise.

Department store sales on a country wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 2, 1948, showed no change from the like period of last year. It compared, however, with an increase of 1% in the preceding week. For the four weeks ended Oct. 2, 1948, sales increased by 3% and for the year to date by 7%.

Retail trade in New York the past week suffered a contraction in sales volume as a result of the religious holidays and poor weather conditions.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 2, 1948, decreased by 6% from the same period last year. In the preceding week no change was registered over the similar week of 1948. For the four weeks ended Oct. 2, 1948, no change is recorded over that of last year, but for the year to date volume increased by 5%.

A New Philosophy of Security Selling

(Continued from page 8)

possible heavy selling starts. Oil company "X" reports a new gusher and although your customer owns none, you should know that he holds oil company "A," which has nearby property and he might want to increase his position.

Among my friends, I number a chap who as a young man watched the ticker tapping out the news of the sinking of the Lusitania in 1917 and almost before the message was completed had deduced its significance and posted his clients who were able to enter a war stock market ahead of almost anyone. Quite frequently, an important piece of news will be presented in an obscure fashion on a ticker or in a newspaper and it is up to the alert serviceman to spot its significance and pass it along to interested parties.

Must Be Alert

Opportunities for good service activity arise daily and an all around, seasoned account executive must be forever on the alert to insure that his clients are not forgotten. At his best, a service man has little time for any other division of the business and therefore my advice is that until he is thoroughly seasoned by years of all around experience an account executive be extremely wary of concentrating in that field. The wisdom of this becomes apparent when you remember that market traders are highly temperamental, frequently fickle, and at times will abruptly transfer their allegiance and make quite a hole in the business of the account executive who has neglected other fields.

Under no circumstances do I wish to create the impression that the occupation of service man should be avoided; I merely wish to emphasize the fact that to be successful in a substantial way many other divisions of the account executives' work must suffer, and the risk should not be assumed until you are confident of your ability to maintain your value under all sorts of adverse conditions.

The final broad category of account executive duties is that which might be described as "specialists" in foreign and domestic economic, financial and political problems. As an account executive progresses with his clients, he will discover that usually he is expected to have definite opinions on the many intangible factors that influence the ebb and flow of security values. A good statistician or securities research man can help you to understand the basic facts regarding an industry or a company and its problems, and the information you acquire may lead to the honest conclusion that at a particular price a particular security is attractive. The President of the United States or a Dictator in Europe, however, issues a statement, a tax department makes a ruling, another company brings out a highly competitive product, and overnight predetermined calculations are upset, and your client is asking your opinion as to just what effect the developments will have on the market as a whole and specifically the stock that he is about to purchase.

In this connection, you must realize that occupants of high office do not necessarily possess prophetic perfection and with all their private, confidential information they frequently make some mighty sorry predictions. Good examples that come to mind are the American statesman who thought Hitler would never go to war, those who thought there would be war every time a crisis arose in Europe from 1933 onward; government economists who are constantly predicting either a boom or a bust, corporation heads who are usually most bearish on their stock at the bottom and most bullish at the top.

The successful, all around account executive, conscious of human faliability, will accordingly feel that it is his duty to study news and events of every character, anlyze it, and be prepared to express his frank opinion when it is requested by his clients. This is a most fascinating part of the work and over the years I have had the good fortune to know many astute individuals in our business whose judgment on specialized problems is always sound and most of the time correct. Time devoted to the reading of serious publications in the fields of politics, economics and world affairs generally, is well worthwhile if the account executive wishes to develop a broad point of view.

Customer's Interest Is First Consideration

Having examined the various activities of an account executive in general terms, an important question arises as to his responsibility or allegiance. No account executive has ever been really successful unless he has, sooner or later, recognized that the customer's interest must be considered first, the firm's second and after that, his own. Every firm should have a basic policy requiring that the customer's interest always be considered first. It should not be difficult to understand the wisdom of such a policy because where it exists the misgivings and suspicions that in the past plagued the minds of customers are allayed and although at times honest differences will occur, the firm cannot be reproached for ignoring vital interests.

An obligation to the firm has been made the second point in the credo of the account executive because the firm is always striving to supply maximum aid to its sales force with the primary objective, the greatest good of the greatest number. The advantages that follow are many because with the whole organization cooperating to insure the most profitable results, the individual account executive benefits not only by his own direct efforts but also by the good results of others. This is why profit sharing plans exist, bonus arrangements, and other inducements designed to encourage all to work as a team. With recognition of the fact that the account executive must think first of the customer and second his firm, it becomes obvious that his third responsibility namely, that to himself, can be discharged without undue personal sacrifice.

As the account executive pursues his daily activity, he will sooner or later realize, after exposure to enough prospects and clients, that they fall into broad groups, which I roughly classify as follows:

(a) The one with small funds who is uninformed and wants to protect what he has.

(b) The one with small funds who knows nothing but nevertheless wants to take changes to get rich quick.

(c) The one of moderate to substantial means who is uninformed and wants to protect what he has.

(d) The one of moderate to substantial means who knows nothing but wishes to augment his existing wealth taking chances.

(e) The wide field of individuals of little to very substantial means who think they are well informed about everything and simply want to be posted on what is happening throughout the day.

(f) Institutions or group funds:
1. Banks
2. Estates
3. Trust funds
4. Investment trusts

A good account executive, by judicious questioning and observation, should ascertain at an early date into which category any client fits. It is important to do so because miscalculation can cause, at the worst, grief and loss to the client and at the best the loss of the account which you are handling.

A few specific examples might be offered to illustrate the points I am trying to make. Recently the proprietor of a small retail store, possessed of a few thousand dollars in surplus cash, opened an account and from the facts ascertained at the time it was evident that he knew little or nothing about the risks that accompany security commitments and endeavored to make it clear that he wished to put his money into stocks of good quality rather than lesser known speculative issues.

Unfortunately, the situation was not fully appreciated by the account executive, as a result of which the customer became the owner of stocks completely unsuitable for his purposes and which cost him a large part of his modest fortune. It was a case of confusing category "A" with category "B."

Again, a widow who had a short time previously inherited a substantial fortune, largely in the form of high grade securities that had been carefully accumulated by her husband, consulted an account executive. She was completely uninformed and sorely in need of wise, conservative counsel. However, the account executive in very short order had disposed of the bulk of her giltedged securities, reinvesting almost the entire proceeds in one highly speculative common stock. Fortunately, this situation was discovered before any real damage was done, and, without loss to anyone, the commitment was liquidated and the account reestablished along proper lines. This was a case of category "C" being confused with category "D."

I recall vividly another instance where a wealthy individual, highly speculative by nature and completely happy only when taking long chances, began to deal with an account executive who thought it was his duty to reform the client. As a result, he persuaded the client to dispose of a number of his speculative issues, replacing them with ultra conservative common stocks. Shortly thereafter, the market enjoyed a substantial boom, in which low priced cats and dogs were far more buoyant than the good stocks. Considerable irritation followed, culminating in the loss of a very lucrative source of business only because the account executive confused category "D" with category "C."

Many examples could be given of the unthinking account executives who approach institutions, such as banks, investment trusts, insurance companies, etc., without having anything like a clear idea as to the restrictive investment policies that guide such institutions in their selection. In addition, they will frequently evidence complete ignorance of the specialized money market factors that will cause an insurance company to purchase, for example, a certain preferred stock offered on a 3% basis, while rejecting what seems to be an equal value available on a 3¼% basis. Such difficulties can be avoided by learning in advance the basic requirements, hopes, ambitions, fortitude, etc., of a client and rigidly adhering to them, at least until such time as you know the rules have changed.

I also recall the vital mistakes made by a number of people some years ago in connection with a switch suggestion that involved the sale of a low priced railroad stock and the purchase of a low priced but good quality oil share. The discreet, experienced account executive at the time examined his accounts to find those that by their nature should not hold the rail mentioned and suggested that it be replaced with the oil stock in the interests of greater protection. Others, however, indiscriminately recommended the switch, with the result that the chance taking speculators were very much grieved shortly thereafter when the rail far outstripped the performance of the oil stock. With the passage of time, the superior quality of the oil stock was reflected marketwise but that was no consolation to the clients who had disposed of it in disgust prior to the rise.

Knowledge of Individual Customers

In the course of your dealings with customers, you will learn that hardly any two are exactly alike and accordingly your attitude will vary with the knowledge you gain by association. Also, because they fall roughly into the broad categories previously discussed, you will learn that the same story must be presented in different ways to different people. If, for example, you are speaking to the uninformed person with only modest funds that he wishes to safeguard, you would probably say: "Our research department regards General Motors favorably in the motor field which they believe is likely to enjoy prosperity for some time ahead." Should you be discussing it with a person of substantial means, who has announced that he is willing and prepared to accept speculative risks, you would probably, after making the necessary observations, tell him: "General Motors is quite active on the tape and is moving higher. By the way, our research department likes it and I suggest that you buy it here."

If you were speaking to the manager of a trust fund or estate, with assets in common stocks, your approach might be somewhat as follows: "I am not sure whether you have any funds available, but our research department holds currently a very favorable opinion regarding General Motors and would favor the purchase of it here. The reasons are . . . If you have no funds available, I think it might be advisable to sell some of your XYZ because of. . . ."

Finally, if talking to the died in the wool trader dealing in ticker symbols rather than individual securities as such, you would probably reach him on the telephone as quickly as possible and say: "The Motors are all over the tape and moving higher. We like General Motors but on the other hand Studebaker is doing this, Hudson is doing that. . . ."

Individual traits of customers are emphasized by the formality or lack of formality with which they accept you. The pace of familiarity should at all times be set by your client. One William Jones may remain Mr. Jones to you all your life, whereas another may become Bill to you after a second meeting. Should this happen, however, be sure it is the expressed wish of the party and not because of undue familiarity on your part.

Many clients are highly opinionated with respect to their views on markets and you must train yourself to recognize such traits and never run contrary to their wishes. You must never forget that it is their money they are employing, not yours, and therefore do not make the mistake of foisting an opinion on an unreceptive person. The only way you can be certain is by asking your clients point blank if they wish you to volunteer opinions or to criticise their contemplated actions where you think justified. Once you have established clearly that your opinions are or are not welcome, the sailing will be much smoother.

There are many former account executives who would be around today had they not all too frequently made the vital mistake of reminding customers of things done contrary to the account executive's wishes. Personally I know of no better way to lose a customer than to say "I told you so." Should you survive his anger and retain his account, not even God will be able to help you the next time he follows your advice and it turns out wrong.

Practically every customer likes to feel that in his contact with you, however brief, he is the only one that counts. Accordingly, you should avoid talking to him about your other customers and never, never mention your *big* customer. This is of special significance where a firm strives to impress the public with the fact that all customers are important and are entitled to its services. Such a policy of course has practical limitations and qualifications, but none that justifies causing needless irritation with any customer by stressing the fact that there are big customers.

I hope the examples cited will give you at least a rough idea of the need for looking upon every customer as an individual in his own right and different in various ways from other customers. Examples could be furnished *ad infinitum* and one cannot be very long in the business before he realizes that hardly any two customers are exactly alike.

How to Obtain Customers

Thus far I have been discussing what an account executive is and how he handles his customers. It is high time, however, to touch upon the all important question of how an account executive obtains customers because if that precious asset is not available everything that has been said is academic and about as valuable as the money you make running a dummy trading account. Let us delve into history and consider how the account executive, or to give him his original and unlamented title "customers' man" solved the problem before enlightened leadership took over. In the so-called good old days, he was put on the payroll at a figure that depended largely upon the glibness of his tongue given a desk and a telephone and told to go to work.

The physical and mental effort involved in going to work usually consisted of concentrating on the names of all the people he had ever met and who might be relied upon to supply a helping hand to somebody starting out on a new career. Unerringly the concentration referred to brought up the following in approximately the order mentioned.

First, relatives—provided there was at least a little money in the family and provided that he was the first member to embark on a financial career.

Second, former schoolmates because of the undying allegiances that are supposed to develop in people herded together in quest of an education. This optimism, however, failed to take into consideration the fact that other classmates might have the same ambition and he quickly learned that his would-be customer was his aggressive competitor. It also overlooked the fact that the classmate might regard his position of trust so highly that he would not hand out business for the largely frivolous reason that the person seeking it.

Third, his circle of friends, which included everyone from the chap he bowed to in the elevator yesterday to the ones he had known all his life. If he thought, however that such people were going to go out of their way to trust him with their business of investing, speculating or whatever form it took, he was simply failing to take into consideration the fact that they probably enjoyed profitable relationships with

others which they were reluctant to disturb even in the sacred name of friendship.

Finally, he exhausted his prospective source of clients by invading the club and if he wondered at times why certain people always seemed to leave when he entered, he should have reflected on the fact that they might have been aware of his designs and were unwilling to become victims.

Friends and Strangers as Customers

Lest there be doubt about it, let me say that all of the methods mentioned produced business in the past and produce it today. There are, however, serious objections to pursuing them unduly on the part of really serious-minded, career people because one never knows to what extent pity, sentiment, irritation and other emotions that have nothing to do with merit influence their bounty. No man possessed of genuine faith in his ability to render an essential service, should be happy in the knowledge that the order he received was due, not to his abilities but rather because he had taken advantage of friendship to a point where a bone had to be thrown in order to get rid of him.

It should also be remembered that the newcomer in the field of financial selling is under a nervous handicap when he succeeds in obtaining business from close associates. This is because he lives to one degree or another with them and where he has influenced their decisions, as he frequently will the strain of worrying about how time will vindicate his recommendations is great. His best friends, however kindly, will not hesitate to reproach him severely if and when things go wrong and will remind him that he should have realized his inexperience and not impose upon friendship.

It would seem obvious from the foregoing that of all of the methods of obtaining customers in the financial business that followed by at least one firm is the best and, utilized properly, an ambitious, competent beginner can operate free of the mental and emotional hazards mentioned. It leads to the steady acquisition of experience knowledge and the attainment of a maturity which almost certainly will, in time, attract the attention of your friends, relatives and clubmates. Then, if they are not seeking you out voluntarily, you may be certain they will at least welcome your approach. On your part, you will have a justifiable confidence in yourselves and your abilities sufficient to eliminate any misgivings as to your right to let anyone, friend or stranger, know that you are, quite frankly, seeking their business.

What then is the method that seems to be so successful in at least one case. Based upon direct experience and observation of many successful men over the last six years, it can be divided into two broad parts. The first part consists of what is done to justify the right to have the business of, let us say, Mr. Jones who is not at the moment a client. Well, perhaps the number one consideration is to make certain that the firm's capital position at all times is more than sufficient to meet all the strict requirements established by regulatory bodies, public and private.

Remember that some clients suffered financial losses in prior years because their broker overlooked the importance of adequate capital and many did not, nevertheless heard stories about those who did. This problem is met by having at all times more than enough capital and voluntarily making certain that every client receives a financial report at least once a year. Accordingly, no account executive need have misgivings as to how the firm will fare when cautious Mr. Jones checks up on its financial condition.

A Competent Staff

The next consideration of major importance is to have competent people, capable of gathering all available information on every industry and corporate entity therein, where there is even a remote public interest. This work is continuous and, so far as humanly possible, is kept up to date. With the facilities mentioned, the next step is to study and evaluate the information in order to reach realistic conclusions as to whether a particular security is appropriately valued, at least in relationship to others, and what the future seems to hold in store for it.

As a result of this labor, the firm is constantly releasing as production tools, detailed studies of individual securities and industries. In addition, the firm is ready at all times to answer the individual inquiries of customers and prospects which arise from their own personal situations, regardless of how specialized and complicated they may be. Time does not permit any more than a very brief reference to the work of a large research department. I can assure you, however, that its operations are extensive and complicated and a far cry from the days when it consisted of little more than a few standard statistical records, the Dow Jones Averages and an overworked statistician who was jack of all trades and master of none. Finally, as an inducement to have Mr. Jones place his business with the firm, numerous extra services are supplied free of charge, and when sums left on deposit are invested, interest is credited.

Firm's Efforts to Find Customers

The second part of the modern method of obtaining business relates to the firm's efforts to find the customer, having satisfied itself of its right to his business. Here again, times does not permit extended comment on the important topics of sales promotion and advertising. I would like to observe, however, that the proper blending of the two features result in bringing the potential customer literally to the desk of the account executive. As the request for the advertised product, booklet, company analysis, industry survey or whatever it may be are received, they are acted upon promptly and the names of the inquirers referred to account executives.

What follows thereafter varies greatly, depending upon the ingenuity, perseverance and determination to move ahead of the individual account executive. As contact is made with a receptive prospect, the facilities of the research department are called into action to answer the queries and supply the information or data requested, and at this point the firm can be about 90% certain that it has acquired another customer. Likewise the account executive must start thinking of the various points I have previously made, such as salesman, financial counsellor, etc., classification of the customer, the customer as an individual, etc.

Question of Compensation

As I approach the end of my talk, I think it perhaps appropriate to offer some suggestions as to just what an account executive might do to help insure success. After all, regardless of the career on which one embarks, he should keep in mind at all times at least minimum goals and strive constantly for their attainment. I hope I may be pardoned for stating that as a result of observing many young men in our business they seem to possess, with few exceptions, one fault to a greater extent than any other, namely: that of feeling they should reach certain income heights more rapidly than they would in any other field.

Perhaps the explanation is that in our business, incidents of good fortune will cause them to relate their individual abilities in direct ratio to the dollar volume credited to their production number. For example, I have on numerous occasions handed made to order business to account executives who had been working really hard but producing only meagre results and when the findfall increased their figures they acted as though their skill had increased just as sharply.

I know of numerous cases where friends or relatives in high place have favored a young man, not because of ability or lack of it but simply because they felt an obligation and knew he was at least capable of recording accurately the specific order they were handing out at the moment. However, if you are to be a success within the real meaning of the word and not merely one who makes a living chasing reluctant people for orders, it will happen primarily for the following reasons:

(1) Because you have complete unshaken faith in the business, your firm, and your own abilities.

(2) Because of your willingness to study constantly in order to keep abreast of the many factors and forces that influence financial markets and cause values to fluctuate.

(3) Because you recognize that records are important at all times and therefore keep yours neat, accurate and current.

(4) Because you are working at all times to expand your field of clients and prospects in order to avoid dependence upon the whims and fancies of anyone.

(5) Because you cooperate with your manager and discuss with him regularly the various problems as they arise.

(6) Because you maintain good relations with all of your office associates, regardless of their capacities as they can be of great help in difficult times.

(7) Finally, because you recognize that there are no regular hours for one who really loves the work and wants to make progress in the business.

Overall Principles

I suppose no one should complete a talk of this nature which is really an attempt to explain how an individual succeeds in a highly specialized line without reciting at least a few overall principles or axioms that are always true, despite the occasional exception that may occur. In my experience and based upon close observation of the activities of a great many highly successful account executives, I feel constrained to emphasize the following:

(1) You are not merely a salesman but also a professional worker performing dignified and essential services. Although cynics with closed minds may feel otherwise, I have always considered the work of a good account executive on a par with that of a doctor because, in broad terms above everything else, the individual values—first his health, which is the domain of the doctor, and second his wealth, which is where the account executive and financial advisors generally come in.

(2) There is very little relationship between the capital value of an account and its income producing possibilities. Depending upon the individual background, it is possible to actually lose money in carrying a so-called million dollar account that is inactive (and many are) and make money with an account modest in size.

(3) You can only express opinions, whether they be your own or those of your firm. You cannot and must not guarantee what will happen pricewise with respect to any security and when.

(4) Initial success or failure with a client means very little. Your real value will be judged, or at least should be judged, by results over a reasonable period of time and under varying conditions.

(5) In our business, at all times you are subject to strict codes, laws, and rules of procedure established first by your government through the medium of the SEC. Second, by the various exchanges that approve you, and, third, by your own firm, based upon its conception of the best methods of making its name and reputation synonymous with sound, financial conduct.

(6) Prudently avoid unnecessary familiarity with your clients. Relationships maintained on a professional basis are invariably the most enduring and satisfactory and over the years they will give maximum satisfaction with minimum interference with you own private life.

(7) Never become dogmatic and decide that you can mastermind the market. Should you ever reach the stage where you have convinced yourselves that, based on charts or any other theory, your opinion is always right, you owe it to yourself to retire and capitalize personally the perfection that no other person has yet acquired.

(8) In the course of your career, you will learn much of value from clients and the knowledge thus gained will help you in your efforts to help others.

(9) Never believe that you must have immediately the answer to every question put to you by your clients. One of the most powerful, effective answers is: "I don't know, but will endeavor to find out."

(10) Beware of the client who takes up so much of your time that sooner or later you are completely dependent upon him and otherwise useless to yourself and your firm.

Private Placements—A New Medium of Financing

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peting buyers may take most of the issue. By contrast, extensive investigations of potential private deals are justified because they are likely to lead to the acquisition of substantial sized blocks or even of whole issues.

Since the war other powerful forces have come into play to increase the volume of private placements—and these have involved businesses of all sizes. First, and perhaps most important the demand for capital has increased enormously and is still very large. As prices, wages, and volume have risen, much larger sums than were originally anticipated have been required to finance business expansion, modernization, the carrying of inventories and so forth. And in the meantime the demand for funds to finance real estate mortgages and municipalities has expanded many fold.

Effects of Taxation

At the very time that this great demand for capital has been going on, an almost revolutionary change has taken place in the size and composition of the supply side of the equation, largely as a result of the incidence of personal income and inheritance taxes. I do not think the country is as yet aware of the implications of this change. And I sometimes wonder if we in the insurance business realize how it has increased our relative importance as a source of new investment funds.

We have heard about the enormous postwar supply of savings. It is large—but it is mostly invested in government bonds, life insurance, savings banks and homes. But what about the effect of taxation on the ability of people to accumulate savings that can be invested in business equities? I am not talking about the pool of capital resulting from past savings that is now invested in common and preferred stocks. I am talking about the money currently being saved that can reasonably be expected to flow into new common and preferred stocks in large enough volume to keep the capital structures of our expanding corporations well balanced.

A sufficient number of surveys has been made to justify the statement that the bulk of new equity capital, and I emphasize the words "new equity capital," has come in the past from people in the higher income brackets. But these are the very people who have been hardest hit by the nearly confiscatory surtax rates of our progressive income tax. A recent estimate of the aggregate net income, after taxes, of people with gross incomes of $50,000 or more shows total current net income to be only one-third of what it was in 1929—a drop from $5,200 million to $1,700 million. Is it any wonder that the stock market finds it difficult to digest new issues of common and preferred stocks without causing price declines, sometimes quite sharp declines, when the net income of the traditional stock buying class has been reduced so drastically?

As for the inheritance tax, I am sure most of us could cite many examples of closely held corporations that have needed additional capital which in former times would have come from the owners. In case after case, however, such owners either are not in a position to put up additional money, because they haven't been able to save it or they haven't dared to make additional investments for fear of tying up liquid funds which might be needed by their heirs to pay inheritance taxes. And so, many of these companies have had no other medium for financing except borrowing, and no potential lenders for long-term funds except insurance companies through private placements.

We have only to look around us to see what is going on. The present boom is being financed more and more on debt, and less and less on equities. In the first eight months of this year over 82% of new corporate capital issues consisted of long-term debt. Less than 9% was through common stocks. It seems to me that when new enterprises such as some recent gas pipe-line companies start out with 80% of their capital in the form of debt, we have convincing proof that new equity money is extraordinarily scarce and that if financing is to be done at all it has to be very largely in debt form. An equally convincing demonstration of this situation is the Bell Telephone financing in the postwar period.

Decline of Individual Investors

As I mentioned earlier, the individual investor has become a progressively less important source of funds for medium and long-term loans, that is to say through the purchase of bonds, while institutions have become more important. For a considerable period the commercial banks were meeting a large part of the demand through what have come to be known as term loans, running up to 10 years, or in a few cases even longer. According to a study made by the Federal Reserve Board, term loans extended by member banks amounted to a lit-

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tle over $4½ billion at the end of 1946, or roughly double the total of any prewar year. But since 1946, with the firming of short-term interest rates and the raising of bank reserve requirements, commercial banks have tended to reduce their term loans. This has meant that in the past two years especially, corporations have turned more and more to insurance companies for new funds. I think most of us who have been making private placements can attest that as a result the volume of inquiries for loans has increased very markedly.

I have tried to show that the mechanism of private placements has developed logically to meet changed conditions in the capital markets, that it has filled a need. And in this connection it seems to me important to point out some of the social considerations involved. Life insurance companies have become the most important private custodian of the savings of the American people. Part of our broad responsibilities is to see to it that these savings are invested wisely to help finance production, distribution and employment for the benefit of the country as a whole. It seems to me we would rightly be subject to criticism if we confined our investments to the largest and best known corporations with recognized highest credit standing and ready access to the public markets. It seems to me part of our job to leave no stone unturned to find sound ways of financing smaller or less well-known concerns that are worthy and well managed. We ought to be sufficiently expert and enterprising to appraise such companies and put our policyholders' funds to work in them with proper safeguards.

Criticisms Answered

Granted all that I have said, it remains a fact that private placements are the subject, and understandably so, of much controversy and considerable misgivings in many quarters. I should like to take up some of the most frequent questions and criticisms that are made, for I believe there are sound answers to all of them.

First, it is said that through private placements we have gone into the banking business and that something ought to be done about it. If, by the banking business, commercial banking is meant, it seems to me the shoe really is on the other foot.

Traditionally, life insurance companies are medium and long-term investors, because their contractual liabilities are medium and long term. Traditionally, commercial banks are short-term lenders, because their liabilities are mostly payable on demand. Only comparatively recently have commercial banks loaned through the ownership of long-term bonds or through so-called term loans. Without wishing to get into any controversy with our commercial bank friends, I submit that a better case can be made that the banks have invaded the insurance investment field than that we have entered the banking business.

In fact I cannot see why investment through private placement is any more a banking operation than investment in the open market. In both cases what we receive as evidence of our loan is a bond, a debenture or a note. In both cases we have to appraise whether the price and yield compensate for the risks, whether the indenture provisions provide sufficient safeguards. And we have to measure these against yields and risks of comparable securities, whether public or private.

If by banking the critics of private placement mean the investment banking business, I should say the criticism is even less valid. Investment bankers aim to hold the securities they buy for as short a time as possible before they resell to ultimate buyers. Their success is determined by their ability to judge within a fraction of a point what market conditions will be at the time of offering. Both these goals are a far cry from the long-term investment objectives of life insurance companies.

The second objection most frequently made about private placement is that they are unmarketable. I wonder if this is as pertinent as it would seem at first blush. Of course private placements aren't listed on any exchange and aren't registered with the SEC. But the stark truth is that the marketability of a listed or registered security is no longer what it used to be. Generally speaking, large blocks of securities such as those customarily owned by life insurance companies can nowadays be sold only if another institutional purchaser happens to be in a buying frame of mind. The fact that a security is listed on an exchange, is registered with the SEC, or is outstanding in large volume does not necessarily mean that it is readily marketable in large or even in small blocks. For evidence one need only turn to the situation in a host of well-known railroad bonds and well-known preferred stocks.

As a practical matter, the fact that a security was placed privately does not by itself mean that it is unmarketable. There have been many instances where insurance companies have resold a private placement without great difficulty. But even if it be assumed that private placements have no liquid marketability, why should this disqualify them as suitable life insurance investments any more than it disqualifies real estate mortgages?

And there are offsets to lack of marketability. It is perhaps not generally appreciated that the overwhelming majority of private placements provide for very substantial fixed annual sinking funds, and many of them for contingent sinking funds, based upon earnings as well. These mean that in the normal course of events large amounts of presently outstanding securities placed privately will be repaid each year. As an example, the industrial private placements owned by my company provide in the aggregate for repayment of nearly 20% of principal during the next five years and 58% by the end of 10 years, and this is on the basis of fixed sinking funds only. It seems to me this is a pretty effective equivalent to the alleged marketability of publicly held securities in today's thin markets.

Before leaving this subject of marketability, is it not important that we stress and restress that our financial strength and solvency come not from theoretical ability to liquidate our assets, but from the character and quality of our income and outgo, as well as of our assets and liabilities? It is all too frequently forgotten that even in the bottom years of extreme depression in the 1930s the income of life companies as a whole exceeded their disbursements by well over half a billion dollars. Since those deep depression years our liquidity has been increased by a change of law. Our large holdings of U. S. Government securities are now eligible for rediscounting at the Federal Reserve banks, and this rediscount privilege would seem to more than supply any unusual temporary need that may arise for liquid funds.

Comparative Safety of Long-Term Loans

A third criticism of private placements, which rests in part on the assumption that they involve a banking operation, is that, being medium and long-term loans, they are riskier than short-term loans. As proof, the difference in interest rates between short and long money is cited. Whether this difference in rates reflects truly a difference in risk is at least debatable in the light of history, for in the past short-term interest rates often averaged well above long-term rates for extended periods.

I should like to quote from an article in the Federal Reserve Bulletin of May, 1947, regarding the comparative safety of term loans. The comments are equally applicable to most life insurance private placements. "Term loans, made under prescribed repayments plans, are generally sounder assets than short-term notes made with the expectation that they would be renewable at maturity or than long-term corporate bonds or debentures repayable in lump sum at maturity. Although the amortization feature does not protect the lender from the fundamental credit weaknesses of a particular borrower, it does require advance planning of payments on the borrower's part."

We all know that many receiverships in the 1930s, notably in railroads, were due not to inability to pay interest, but to inability to refund an issue at maturity. In private placements this problem of refunding is largely eliminated by provisions for mandatory and contingent sinking funds. These planned repayment schedules should thus reduce one important cause of defaults.

A fourth criticism rests on two assumptions, both, I believe, based more on prejudice than on fact. That is that most private placements are in the industrial field, that industrial investment is much riskier than other fields and particularly risky when it involves medium size or small corporations. For the first time, I believe, we have available convincing evidence that neither of these assumptions is true. Many of you have probably heard of the so-called "Corporate Bond Project" being conducted by the National Bureau of Economic Research and which has been in part financed by the Joint Committee on Investment Research of the American Life Convention and the Life Insurance Association of America. Some of the material which they have prepared, but which has not yet been made public, is of extraordinary interest and importance. It may surprise you to know that their study of all major corporate bond issues offered between 1900 and 1944, and involving $55 billion of bonds, shows that industrial bonds gave a far superior performance than either public utilities or railroads. Their realized yield after losses due to default was substantially higher, the default ratio was substantially lower and, as a matter of fact the profits resulting from calls and prepayments exceeded the total losses due to default.

Another of compilations made by this study very clearly indicates that in the period from 1920-40 the performance of bond issues under $5,000,000 was supurior to that of major issues. The only exception to this latter statement is that for a short period during the depression, the market performance of these small bond issues was inferior, but this exception should not be of major importance to long-term investors like ourselves.

Are New Regulations Required?

Finally, a sort of blanket allegation has been made to the effect that life insurance companies through private placements have embarked on a brand new venture which has a suspicion of being speculative. Therefore, it is held that the practice should be restricted by law or regulation. All I should like to say in reply is that the same laws and regulations which govern our purchases of open-market securities, govern equally and as fully our purchases of privately placed securities. There is no way that I know of whereby either laws or regulations can successfully supplant the judgment of management. No law yet devised ensures that investors, whether in the insurance or other fields, shall always buy and sell the right things at the right time. If there be a few who because of incompetence or greed invest insurance funds speculatively, it nevertheless remains true that all but an infinitestimal part of life insurance funds are administered competently and under the highest standards of trusteeship. Surely, until this is definitely proved to be untrue, and until private placements fail to serve the useful purposes they now do, further regulation or legislation should be approached reluctantly, if at all.

If I were to recapitulate my answers to the critics of private placements, I should say that on average, privately placed securities are at least equally as good as the average public issues purchased by insurance companies, and that in many cases they are superior, even though public issues may have greater marketability.

I say this for two reasons. First, I believe most private placements are more thoroughly investigated before purchase than is the case with new public issues. I suspect that in public issues more reliance is placed upon market reputation and less upon first-hand knowledge and investigation.

Second, in the great majority of private placements, at least those that have come to my attention the protective features insisted upon by insurance companies have tended to be stronger than those customarily found in public issues. I believe this feature cannot be overemphasized.

I remember one negotiation we were conducting with a medium-sized Southern corporation which was represented by a lawyer who was not too familiar with corporate finance. After struggling through the first 30 pages of the proposed indenture terms, he turned wearily to our counsel and said: "Can't we just go back to a nice little old-fashioned mortgage?"

Well, the answer was that a nice little old-fashioned mortgage wasn't good enough, and it seldom is good enough in an industrial loan. The real strength behind most industrial loans is not mere physical property, for that is usually incidental. Rather, the real strength lies in the faith and integrity of the borrower, backed by earning capacity, sufficient working capital and equity, and the intangible but very real value of a successful, functioning organization. As insurance companies have gained more and more experience in negotiating private placements they have found improved techniques for safeguarding the preservation of these various factors supporting their loans. They have learned to adapt protective features to the almost infinite variety of conditions pertaining to individual situations.

There is no need here to discuss such protective features in detail. I should be the last to maintain that they will guarantee that all our private placements will always enjoy full sunshine, for some of them have already encountered stormy weather. I do maintain, however, that these provisions, if carefully thought out and drawn up, have in many cases already proved their usefulness toward weathering adversity and they are likely to continue to do so.

I know of one case, for instance, where an unexpected downturn in a company's business threatened to reduce working capital to below the minimum figure provided in the indenture. The management asked that the clause be modified temporarily, because it thought that earnings would quickly recover. The holders of the privately placed securities of this company suggested that management investigate other remedies to the situation first. This resulted in a thorough check-up by management which revealed unsuspected leakages due to faulty inventory control, various inefficiencies in plant operations and slack selling efforts, all of which had slowly developed during the period of lush business.

Steps were immediately taken by management to correct these weaknesses, with the result that the break-even point was lowered from well above 70% of capacity to under 50%. The important thing is that these remedial steps were taken long before there was any question of insolvency, and they were taken because the minimum working capital provision served as a warning signal at a relatively early stage in a situation which otherwise might have been allowed to drift into possible serious deterioration.

The rapid increase in life insurance holdings of private placements has raised operational problems for ourselves as well as for the insurance commissioners. The investigation and negotiation of these investments has frequently required increased personnel. Servicing and following the investments, once made, calls for somewhat new techniques, not all of which have yet been worked out in detail.

Valuing Private Placements

Perhaps the most thorny problem, and the one involving the greatest uncertainty from the standpoint of insurance companies, has to do with the methods the National Association of Insurance Commissioners may ultimately adopt for valuing private placements for statement purposes. The criteria now used for valuing public issues, namely market prices, yields and ratings by the investment services, very obviously cannot be applied to most private issues since they are neither quoted nor rated. If the Commissioners' Committee on Valuation should attempt to appraise annually the carrying value of each private issue, it will be faced with an almost overwhelming administrative task since there are approximately 2,000 of such securities now outstanding and the number is growing rapidly.

This question of valuation is very much in the minds of both the Commissioners and life insurance companies. It is one of the subjects which will shortly be attacked by a committee representing the Commissioners and by a new all-industry committee on valuation under the leadership of Mr. Leroy Lincoln. I have no doubt that these committees, representing as they do various branches of the insurance business as well as the insurance commissioners, will be able to find a satisfactory and workable solution in due course.

It would be a bold man indeed who would predict what developments may take place in future private placements. Personally, I have a feeling that the usefulness of this vehicle for financing can and will be extended. If, as a matter of national policy, income and inheritance taxes are to be used in part as a method for redistributing wealth and new savings, and if, as a result, the traditional sources of new equity capital remain relatively dry, then some steps will have to be taken to ensure that savings made through institutions such as ours fill part of the vacuum in the equity field. While there has been much conversation as to the

merits of life insurance ownership of common stocks, it seems unlikely that any great expansion in such ownership is to be expected in the near future. The obstacles to the early passage of enabling legislation, particularly in New York State, would still be formidable even if there were general agreement on this controversial subject.

It may well be, therefore, that instead some adaptation of the mechanism of private placements can be worked out whereby life insurance companies can assume a somewhat larger share of the risks of business enterprise with adequate safeguards and higher interest returns. It is a field worth exploring—and it may offer at least partial solution to some of the enigmas now facing our economy. Of one thing I am convinced, however, and that is that society will not indefinitely favor the private operation of life insurance unless we continue to find ways to put the savings entrusted to us to work for the common welfare.

The Stock Market as a Guide in Managing Life Insurance Portfolios

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aspects of your business. It seems not a long step to the conclusion that, unlike a manufacturer of washing machines, for example, you no long can think of ways to protect your companies from a depression without thinking of ways to protect the whole nation from it. You must be the nation's first economic statesmen in the ranks of private industry because yours in the first business to become so identified with every part of the nation that your interests and those of the country as a whole are indistinguishable. That leads to my third question:

"Can you count on coming through the next big depression in this country unscathed behind the buffers you have sought, as you did the last one?"

As of the end of 1940, life insurance in force in the United States amounted to more than three-fifths of all the life insurance in force in the world. Obviously, no one on this planet can help you, out of his own experience, to answer the question whether you have grown too big to continue to rely on investment shock-absorbers. Like other pioneers before you, on the western prairies or in the stratosphere, you must proceed without the aid of guideposts. It seems to your court jester, however, that with 79% of the families in the United States owning life insurance, with your total assets well past the halfway mark on the road to $100 billion, you must be approaching the time when you will feel a severe depression—if we have one—both as to your own investments and as to the ability of the more marginal individuals among your enormously expanded number of policyholders to continue to buy and carry life insurance during such a slump. A straw pointing in that direction is the fact that the average ordinary life insurance policy in force now is slightly smaller than it was in 1900, notwithstanding the great increase in average incomes since that time. It seems likely that the salesmen who sold the insurance that covered one-tenth of the population in 1897 chose the most likely prospects for their wares. Now that half the population is insured, your salesmen must have had to seek more marginal clients than before.

By emphasizing your identification with the welfare of the country as a whole I hope to forestall the charge that anything I say today suggests abandonment of sound business practices *pro bono publico*. If I should die tomorrow, life insurance would be the biggest single asset in my estate, and I do not want its safety jeopardized by any starry-eyed notions about all-for-one and one-for-all. What I am trying to suggest is that your growth together with changed conditions in the United States, may have made a new investment outlook not only good business for you but vital to your continued well-being.

Your court jester's fourth question is, "How far should you go in buying securities directly from big corporate borrowers, either as individual life insurance companies or as groups of such companies?" You heard a remarkably able paper on that subject yesterday, but have you considered all of the possible long-run results of unlimited expansion of private placement?

Unquestionably, General Motors, Chrysler and Ford could have made a great deal more money in the last two years by selling their automobiles directly to the public instead of through dealers. With the demand for automobiles far in excess of the supply, the dealers have had to do no selling. But the big motor makers are looking ahead to a time when they think they will need selling power, and some of them are not only retaining their dealer organizations, but are requiring their dealers to use part of the current easy profits of their dealerships to build up their plant and personnel in anticipation of more competitive times to come.

Do the life insurance companies lose anything of real value when they do not get the judgment of the investment banking business on each new security? Two heads are better than one, but most of you have many expert financial heads within your own organizations. Some of you used to be investment bankers and have lived it down.

With respect to your buying whole issues for groups of life insurance companies, the question must arise whether such tactics, shutting out non-members of the group, eventually will bring counter regulations such as the competitive bidding requirements aimed to break up what were alleged to be exclusive arrangements in the investment banking business itself. The American people, on the record, seem to feel that if they must choose between maximum efficiency and competition, they will favor competition. That is a natural extension of the principle of democracy in government. In theory, the ideal government is an absolute monarchy with the best man in the country as the absolute monarch. But our nation is dedicated to the proposition that the average man will be better off in the long run if we keep all roads open. We are sticking to that proposition even in Germany.

My fifth question is, "Are you doing your full job?"

Should you aim to do more for all policyholders, or any of them, than rent safely the dollars entrusted to your care, regardless of what they will buy? As the custodian of the principal investment of a large part of the population, do you owe your policyholders more information and advice than you have been giving them regarding developments in the nation contrary to their investment interests? Nature abhors a vacuum, in politics and economics as well as in physics. Are your conservative policies leaving such vacuums into which other organizations less sound and other leaders less experienced will be drawn?

How Stock Market Can Help

How can the stock market help anyone to answer such questions? The stock market seems to be telling us that something is wrong. Despite higher earnings and dividends in 1947 than in 1946, and despite further gains thus far in 1948 over 1947, common stocks are selling lower in relation to their current earnings than in any previous year in the last 20. In only two years since 1929 have leading common stocks failed to sell higher in relation to their asset values than now. Those two years were 1932, which saw the bottom of our greatest depression, and 1942, which was for us the first and blackest year of World War II. Stock earnings yields are higher now in relation to yields on high-est-grade, fully taxable corporate bonds than they have been at any time in two decades excepting only 1941 and 1942 when the relationship was close to that now prevailing.

Paradoxical though it may seem to the finance officers among you who are struggling daily with the problems of maintaining a reasonable return on your companies' investments in what is still close to the cheapest money market in our history, the stock market gives many signs of an equity money or risk capital squeeze. That is important to you because without risk capital or buffer money there would be no real bonds available for your portfolios except government bonds for which the earning power of all of us constitutes a buffer under tax laws. But it is even more important to you, it seems to me, because it threatens the economic well-being of the country as a whole.

How is it possible to have a scarcity of risk capital at the same time that we have such a superabundance of safety-first money that the government is increasing bank reserve requirements in order to reduce the total available supply?

A bank teller cannot see any difference between a dollar of risk capital and a dollar of safety-first capital as the money passes through his hands. The only thing that distinguishes one from the other in many cases is the state of mind of their owners. Undoubtedly large sums that ordinarily would be risk capital are acting like safety-first capital now because of the pessimism of their owners. Why are their owners pessimistic? There is a widespread belief in the inevitability of a postwar slump. There is a great deal of reverence for historical highs despite changed yardsticks. War fears are widespread. So is worry over high pay points. There is apprehension that our free enterprise system may not survive another depression. We had enough experience with rationing and price-fixing during the war to learn that under such regulations the value of a common stock becomes a political rather than an economic question.

Risk Capital Shortage

But such considerations are psychological, and imponderable. What are the tangible factors contributing to our risk capital shortage?

The great bulk of risk capital always has been supplied by those who could afford to take a chance, that is, by those in the higher income brackets. The only other comparable source has been retained earnings of corporations. Many years of successive increases in personal income taxes reduced to a new low the ability of individuals to create risk capital. At the very time individual income taxes were highest, corporations were prevented by the excess profits tax and Section 102 from retaining earnings which might have substituted in part for dwindling individual accumulations of risk capital.

Persistent, large-scale liquidation of foreign holdings of our common stocks aggravated the situation, as did the sharp increase in capital requirements of American business due to the rapid rise in the general price level and the sharp and unexpected increase in population in recent years. The President of Westinghouse Electric estimated last week that it takes at least 75% more working capital to operate now with the same physical volume as in 1941.

Unquestionably tax-exempt bonds mop up some "might-have been" risk capital. We keep a "taxable equivalent" yield table in front of us all the ime, to enable us to tell customers liable to 75% tax that a municipal bond yielding 2% will give them just as much spendable income as a common stock yielding 8%.

Another partial explanation of our seeming dearth of risk capital may be found in the extensive redistribution of the national income in the last two decades. The chief beneficiaries have been farmers and organized labor. Neither group has been a major contributor to the supply of risk capital for industry in the past, though farmers are capitalists and equity owners in their own farms.

Last but not least among the factors which are making buffer money scarce and high-priced is the increasing institutionalization of the savings of the American people. Unemployment insurance and old-age pensions provide at least in part for needs that the prudent individual used to anticipate for himself. All funds accumulated by the Federal Government for that purpose are, of course, invested in government bonds. Life insurance premiums now amount to 3.1% of the national income, and you know how that money is invested.

Analysis of the current situation in the stock market thus seems to be telling us two things:

First, there is an actual shortage of risk capital as a result of a combination of developments which have tended to reduce the supply and increase the demand at the same time.

Second, a substantial portion of the risk capital that is in existence, inadequate though it may be for the job that lies ahead of us, could be brought out of hiding if given adequate incentives.

The first point has to do directly with the investment policies of the life insurance companies of the United States, and the second with their relations with their policyholder and the public. Unquestionably those investment policies are contributing to our present scarcity of risk capital by removing an increasingly large share of the national savings from all possibility of becoming risk capital, no matter how great the inducement. The dilemma in which the insurance industry finds itself is that the evidences of debt it wants to buy for investment are no good without a reasonable margin of buffer or risk capital, while the supply of that risk capital is being reduced to no inconsiderable extent by the insurance industry's success in selling a larger and larger proportion of the American public on the idea that a life insurance policy should be the first, and is the most desirable, of all forms of savings.

Suggested Solutions

To your court jester only five possible solutions suggests themselves. Most of them would not be popular and are not to be considered as serious possibilities. Just to look at as many aspects of the problem as we can, however, they are as follows:

(1) Life insurance companies could stop trying to expand their business. That would be socially undesirable because the people who do not have life insurance now probably need it most, and those who do have it now probably need more because a dollar won't buy as much now as it did before the war.

(2) The national income might be redistributed so that the people who have contributed the most to the nation's supply of risk capital in the past would get a larger proportion of the national income from which to save risk capital. The idea is politically impossible even if it were economically feasible, which is doubtful.

(3) Personal income taxes could be sharply reduced, particularly on the higher income brackets. Dividends in the stockholder's hands could be exempted from taxation. Unfortunately the world situation makes early important tax reduction difficult. Tax reduction which would maintain total tax revenues while reducing the burden on the "haves" to any significant extent would be political dynamite.

(4) Investment bankers and dealers might make a more aggressive and intelligent effort to persuade persons of small means, particularly farmers and union members, to invest part of their savings in common stocks. Such a program would be slow at best, and the need for more risk capital is here now.

(5) Life insurance companies could recognize that their very success in selling themselves as the number one custodians of the savings of the American people is going to compel them to assume a larger share of the risks of our system of democratic capitalism.

Right now there seem to be many reasons why the life insurance companies cannot or will not assume that new responsibility. Yet without the help of the life insurance companies our approach to the problem reminds me of the story of the two intoxicated men lurching down a fog-darkened street in London, leaning on each other for support, until they came to a square in the center of which was a statute surrounded by a circular iron railing. Once they encountered that railing, our two tipplers felt new confidence. For a weary mile or two, during which they circumnavigated the enclosure many times, they continued to stagger along, clinging to the railing for support as needed. Finally, sensing that something was wrong, the least intoxicated of the pair turned to his fellow and said: "My God, there must be some way out!"

Weeks ago, when I was first struggling with the subject of the stock market as a guide in managing life insurance company portfolios I considered talking with you about some of the methods we use to detect deterioration in common stocks, which are the buffers for bonds, before that deterioration has affected appreciably the market value of the securities. I tried some of my ideas on one of the shrewdest and wealthiest men I know. His comment was that he had seen a good deal of money lost by efforts to be right on the little things before making sure of the big ones.

The big problem here seems to be where and how to find an adequate supply of risk capital quickly at a time when failure to do so threatens to choke off the capital expansion that has been sustaining business the last two years. In solving that problem the leadership of the greatest business in the world is urgently needed.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Continued dullness places market in a precipitous position where news might start sharp break. Stops now more important than ever.

Last week's column said in effect that the next few days would point to the immediate path of the stock market. Apparently I was too optimistic. The way the market is moving it looks like it may take weeks before it gets up enough strength to set up, not even mentioning strength enough to point.

* * *

From present signs we'll be in for a news deluge of various sorts with the tape veering in the direction of the news as it happens. Superimposed on this will be the political campaign which is gathering heat even though the race seems all over but the shouting. It is apparent that the market, or rather the people with enough money to influence minor trends, will stick to the sidelines awaiting developments.

* * *

This leaves only the rank and file (you and me) to make anything out of this dull lethargic market. The average public buyer of stocks is seldom interested in market action of the future unless immediate action is such as to give him hopes of rapid rises almost at once. A sleepy tape, even though stocks are on a bargain counter, leaves him cold. He's bullish only when the market is active and rising. Same thing applies to down markets, except there are two additional factors that enter into it.

* * *

A holder of stocks who sees a dull, uninteresting market, becomes a potential seller. A professional trader who is aware of the public's proclivities, may take advantage of such a public psychology by offering stocks at the market. Because of SEC rules such offerings must be long stock.

* * *

Short stock can only be sold after long stock is disposed of, so today short stock is sold on a rising market. But there is nothing to prevent selling against long positions. I'm merely pointing out the additional factors in a down market that are not present in a rising market.

* * *

All this leads to the premise that the possibilities of a new decline are increasing with every day the market does nothing. In the Dow figures such a decline can carry the averages down to about 170 without any real damage to the major picture. Still I don't look forward to such a break with any complacency. It is something I'd rather let the other guy sit through. If there is to be any support at that figure, I'd prefer to be long of cash and start my buying when, as and if, the support develops.

* * *

So now we come back to our position. There's nothing I can add to last week's statement. You have **Allegheny Ludlum** between 29 and 30. Stop it at 30; **American Airlines** between 7½-8, stop at 6; and **Loew's**, between 16 and 17, should be stopped at 15. Suggestion on oils (see last week's column) still applies.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

I. A. McDowell Co. Opens

ALBANY, ORE.—I. A. McDowell & Co. has been formed with offices at 230 South Broadalbin Street to engage in the securities business. Partners are I. A. McDowell, Katherine M. Buike, and Donald R. Catt.

Dofflemyre With Buckley

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Ralph L. Dofflemyre has become associated with Buckley Brothers, 321 South Beverly Drive. He was formerly resident manager for John B. Dunbar & Co.

With Maxwell, Marshall

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Philip A. Zimmerman has become affiliated with Maxwell, Marshall & Co., 9441 Wilshire Boulevard. He was previously with Weeden & Co.

L. V. Shaw Opens

FALMOUTH FORESIDE, ME.—Leigh V. Shaw is engaging in a securities business from offices on Edgewater Road.

State of the Nation's Business

(Continued from page 11)

all. He has no rights or will of his own, as against society. The state which is society in action is supreme. It does not exist for individual citizens; individual citizens exist for the state. The state is a corporate being through which the total will of society is expressed. The head of the state — whether he is called **Der Feuhrer** or **Il Duce**—has absolute authority both legally and ethically. His policies, he holds, are not his own; they are state policies —policies of the state, by the state and for the state.

If private capitalism is to prevail over fascism, communism and state socialism, two major lines of action are necessary. The first of these lines of action is to check the drive of the Soviet Union to dominate the world. The Soviet Union is the most powerful nation of the Eastern Hemisphere. The United States of America is the most powerful nation in the Western Hemisphere. While these nations joined each other to defeat Hitlerism, they were at opposite poles in their ideologies, in their forms of government and in their notions of democracy. The Soviet Union represents the way of communism and the United States represents the way of private capitalism—two ways of life which are diametrically opposed to each other and which Marx and Lenin held could not amicably get along together in the same world. A show-down between these two ways of life sooner or later is bound to come. It looks as if at present it will come sooner rather than later.

When Lenin, the father of Russian Communism, founded the new Russian Empire on the ruins of the old, he became at once the dictator-successor of Czar Nicholas II. He fully expected a world revolution to occur without delay —a revolution in which the working classes in capitalistic countries everywhere would arise and would take over or set up governments similar to the one he had established in Russia. For this reason he did not call his country the United Provinces of Russia or simply Russia; he called it the Union of Soviet Socialist Republics. He envisaged a world-wide organization which would inevitably attract to itself one communist nation after another. That conception of things has not changed. It has persisted among Russian leaders ever snce the days of Lenin. Hence, to survive the march from Moscow, the United States is compelled to act, to take the initiative, to go on the offensive—to move quickly in order to save itself and the other democracies from becoming the victims of the glittering promises and glowing benefits which the Communist International holds out to frustrated, fear-ridden and famishing peoples not only in Europe and Asia, but also in other parts of the world.

The other major line of action which the United States is required to take is to strengthen the system of private enterprise. To achieve this end, I would like to suggest a minimum program of five principal points and I would like to urge that a beginning be made at once to put into effect all or as many as possible of these points:

(1) **Recognition of new programs, processes and products.** America has not reached the end of its growth. Private capitalism may be mature but its tasks are not ended. The age of conquest is not over. We have not done everything that is to be done. While the future may be uncertain, it will present us with more challenging opportunities than either the present or the past. America's quest for a better order of things has only just begun.

(2) **Reorganization of labor-management relationships.** The nation cannot prosper in the midst of industrial strife. Conflicts between capital and labor are a species of war and war is always costly. Strikes and lockouts mean loss of working days, decreased wages and profit and reduced output for consumers. If private industry is to demonstrate its effectiveness in the future, labor and management must work together, not against each other.

(3) **Revitalization of small and medium-size undertakings.** Big business, which is getting bigger all the time, has its place, but it cannot be permitted to pursue its own ways in unfair competition with small or medium-size concerns. Small and medium-sized concerns. Small and medium-sized concerns have increasingly found the going rough. They are entitled to better treatment than they have received in the recent past. They need opportunity to reassert themselves, to obtain adequate capital, to play again their part. Except for the few at the top, big business offers men dependence—a chance to become wage-earners and salaried workers. Small and medium-size business offers men independence —a chance to become owners and proprietors.

(4) **Readjustment in taxation.** "The power of tax," as a distinguished judge remarked a long time ago, "is the power to destroy." Business is willing to bear its just share of the tax burden. It desires no escape therefrom. What it demands is equity, a chance to acumulate reserves for expansion, an opportunity to prove its continued usefulness. If it is to do so, the present tax system, local, state and national, must be carefully readjusted at many points. Otherwise, individual initiative and venture capital may be taxed out of existence altogether.

(5) **Restoration of competition.** Monopoly, whether national or international, cannot be allowed to go its own way. Control is essential. Competition is the life not only of trade but also of production. It weeds out the unfit. It stimulates and brings out the best in men as well as in corporations which are run by men. Where the economies of monoply are evident and are greater than those of competition, monoply should be recognized but should be made subject to thorough regulation.

III

The state of the nation's business is not only that of private capitalism, but also that of preferred position. The responsibility for the reconstruction of the world rests upon the shoulders of the United States and the other strong nations. Unless the strong nations are willing to bear the infirmities of the weak, unless they are prepared to give of what they possess instead of grabbing what they can get, and unless they are ready to feed each other rather than to feed upon each other, the hope of a just and lasting peace which has appeared in the heart's of millions of people in all parts of the world may be converted into despair. Let me illustrate what I mean by a parable —a parable taken from Otto Tod Mallory's book, "Economic Union and Durable Peace:"

"Once upon a time an American citizen died and went to Heaven. Before settling down he asked to be allowed to satisfy his curiosity concerning Hell. His request was granted. He found there a circle of hungry-looking cadaverous individuals around a huge banquet table spread with a great feast. Each man there had a long metal spoon strapped to the inside of his arm, like a splint, so that he could not bend his elbow. No one could feed himself. There they sat, hungry and disconsolate. On his return to Heaven, he found another delicious banquet spread around which there was a circle of well-fed and happy people. Each man again had the same kind of a spoon strapped to the inside of his arm in the same way. But here the situation was different. Each was feeding his opposite neighbor."

That is the spirit that must characterize the nations, if they are ever to develop ways and means of living peaceably together in one world.

To put this philosophy into effect, the United States in particular will have to sacrifice to some extent its preferred position. It cannot under a unified world order forever retain the economic superiority which it possesses at present. When and if atomic energy is converted to industrial uses, the backward areas of the earth, blessed as so many of them are by abundant natural resources, will surge forward; they will become industrialized. That means they will appear as producers of industrial commodities and that they will become competitors of the United States in the markets of the world. Exports and imports will flow in many directions. Neither the United States nor a revived Great Britain will be able to remain dominant as exporting nations and control the facilities of international finance and shipping. They will be compelled to cooperate with other countries and to share their advantages and know-how with other countries.

But this possible shift in the economy of the world does not necessarily signify that the United States will drop to the plane of a second-rate power. It does signify that tariff policies and attitudes toward international investments will have to be reversed. Tariff walls will have to come down. It will be necessary greatly to widen and deepen the flow of trade. Things which we cannot produce economically will increasingly come to this country from other countries and things will go from this country to other countries which they cannot produce economically. The variety and abundance of consumer goods will be tremendously increased for peoples everywhere. The law of comparative advantage which has played such a prominent part in international economic relations will continue to apply but it will apply without artificial restraints, without self-seeking agreements as to national quotas and without national subsidies to maintain certain industries which could not otherwise exist.

The wars of the past—most of the wars of the past—have arisen out of the preferred positions of particular nations. England, beginning in the sixteenth and seventeenth centuries and fully developing in the eigtheenth century, set the pattern. When England claimed new areas either by right of discovery or by right of conquest, it proceeded to colonize these areas. It gathered together the raw materials therefrom, shipped them in British bottoms to its island home, financed the transactions by British capital and transformed them into finished products. Then it turned right around and shipped the finished products back for sale to the colonies, again in British ships and financed by British capital and retained for itself whatever manufacturing, shipping and other profits that could be realized therefrom. Along with these activities, it organized colonial governments, directed colonial affairs from London and assumed what it was pleased to call "the white man's burden" of civilizing backward peoples. Other nations followed the same pattern. But the pattern no longer possesses potency. It is outmoded. No nation will be able to exploit backward regions or other nations in the future, the charges of

imperialism against the United States by the international wrecking crew of Molotof, Gromyko, and Vishinsky to the contrary notwithstanding.

The United States has become a creditor nation. It can no longer do the things it once did. If it is to receive a return on its investments abroad and make further commitments, it must change its notions concerning foreign trade. It sells from 87 to 90% of its output in the domestic market and exports the other 10 to 13%, but what it exports is nevertheless of strategic importance. In spite of the present demand for food shipments to Europe, our exports consist largely of machinery, equipment and other forms of capital goods. These articles represent things which come from our farms, our forests, our mines and our supply of natural resources. When they are sent to other countries they are gone for good. We are to that extent the poorer. So if we are to better ourselves by our exports, we much receive something in return. That something is imports— imports of things which we cannot produce at all or which we can produce only at high costs, and imports of things which we must have to fill in the gaps in our national economy.

But we have always been export-minded rather than import-minded. We have accepted the policy of shipping out but not the policy of shipping in. Indeed we have erected tariff walls designed specifically to keep goods from coming in. We have adhered to the old mercantilistic notion that nations get rich by a favorable balance of trade or by an excess of exports over imports with the receipt of the excess in the form of gold. While this arrangement was sound when we were a debtor nation, it becomes unsound when we develop into a creditor nation. Hence, it is necessary to reverse the process and to adjust ourselves to an excess of imports over exports, or to an unfavorable balance of trade which can be settled only by increased shipments of goods to us. Otherwise, we permit other countries to enrich themselves at our expense. As a result of these changes, protective tariffs will have to go and more attention will have to be devoted to problems of free trade and of reciprocal trade agreements.

IV

The state of the nation's business, then, is the state of price inflation. It is the state of private capitalism. It is the state of preferred position. Are we ready and willing to pay the price of preserving and further improving the state of the nation's business? If we are not ready and willing to pay the price therefor, the right of free peoples to govern themselves and to live peaceably under the law may disappear; the ways of democracy may cease to exist; and the civilization we have known we may know no more. The world may return to another era of the Dark Ages—an era of darkness unsurpassed by any other era in the history of mankind.

The Five Percent Yardstick

(Continued from page 3)

no conferences were held, wouldn't it be simple to just say so? Here is a plain case where silence bespeaks guilt.

The article tells us:

"At no time has the Association (NASD) said to its members that they could not make more than 5% markup on a transaction with the public, but it has implied that any markup above that figure was suspect and must bear the burden of proof."

Doesn't the author know that implication was invalidated in the proceeding of which we speak, the Commission holding in effect no wrong inferences may be drawn from the mere size of a markup and that the burden of proof is on the NASD when it charges contravention of fair and equitable principles of trade and not upon the respondent?

To the author's claim, ". . . the Association has used that power with infinite restraint and tact, concerning itself with the spirit of the law, rather than its letter," we say hooey; rather has it been used as a club of subjugation which was never duly authorized in the first instance. This self-assumed power has created an unhealthy condition of fear of reprisal which accounts for the many anonymous letters we receive, and where communications are signed for the numerous requests that names be not published.

We come now to the persistence of the NASD in continuing to adhere to the "5% yardstick." Of all crass stupidity this stands out. On every hand prices have increased. Rent, the cost of office help, all other items making operation possible have increased in price. Exchange commissions have soared. Why is the over-the-counter dealer made an exception? Is it because of a planned effort to exterminate the little fellow? Because this can have far-reaching repercussions, can backfire, and is utterly unjust, all those in the securities field, big and little alike, will be out of sympathy with any such attempt.

The right of the over-the-counter dealer to a livelihood must not be impaired, while at the same time others in the securities industry are permitted privileges which keep them abreast of the changes in our economy.

The SEC and the NASD would do well to re-examine the 5% yardstick. They owe a duty to the industry of abolition. Making fish of one sector and fowl of the other is not calculated to receive popular approval. It contravenes public interest.

Earnings Versus Dividends as Guide to Stock Price

(Continued from page 4)

to force annual distributions of a company's earnings.

Tax Reduction Enlarges Dividend Payments

Moreover, the recent increase in the dollar amounts of dividend payments is undoubtedly due to the favorable income tax factor. Under the Revenue Act of 1948, embodying provisions for splitting net income, greater distributions of dividends may be made without subjecting such income to the burden of excessive tax rates. Splitting of income between husband and wife results in a substantial saving to middle-bracket and upper-bracket taxpayers. Under prior law, a married person with two dependents, who earned a net income of $90,000, paid income tax at an effective rate of 60%. By comparison, under the 1948 Act, this rate is 44%. It is the amount of dividends which a shareholder keeps after taxes that is important. Hence, taxes would seem to exert a favorable and not a retarding influence.

The correct answer to the problem, it is submitted, will explain not only the price of movement of stocks in the past two years, but the shape of things to come. It is not dividend policy that counts so much as the economic forces which help to shape dividend policy. Foremost among such predominating forces is that of inflation, whose pressure is being held precariously in check.

One economist, analyzing comparative statistics, has recently pointed out the effect of the shrinkage of the dollar on stock values. He has declared:*

"The investment expert has apparently, therefore, quite correctly capitalized present earnings in approximately 1939 dollars. As an excellent example, General Motors has reported earnings at the rate of approximately $10 per share. It usually sells about 12 times earnings. Its present price, however, is around 60, that is, 12 times its earnings in 1939 dollars. This will, morever, be found to be correct if we compare the 1939 Dow-Jones averages and earnings for 30 stocks with those of the present."

If we consider the 1939 dollar has depreciated one-half in purchasing power, we should not be deluded by the apparent rise in earnings. The General Motors dividend for 1948 is expected to amount to $4 compared to $3 per share for 1947. In 1946, labor troubles unfavorably affected its earnings, so that the dividend payments were a high percentage of its profits. Over the period 1941 to 1947, General Motors increased the equity for its common stock from $20.46 to $27.78 while disbursing 50% or more of net income in cash dividends. Its record for the 10 years to 1941 shows a ratio of 85% of earnings were paid out as dividends. According to Department of Commerce figures, there was an excess of dividends over earnings during the lean years 1930 to 1938. Most corporations in recent prosperous years are making up the invasion of earned surplus and depreciation reserves which were used as the source of dividends. The prospect for a more liberal dividend ratio by corporations generally is not too encouraging.

In the long run, earnings rather than dividends exert a potent influence in determining the market value of stocks. While the market may tend to ignore historically high corporate earnings, this condition has only temporary significance. Those who take account of the present inflated economy interpret earnings in the light of dollar shrinkage. To say that dividends have replaced earnings as a determinant of value is to ignore the impact of inflation which has distorted both earnings and prices.

*Allen M. Bernstein, "The Fallacy of Equities as a Hedge Against Inflation," "Commercial & Financial Chronicle," Aug. 19, 1948.

Louis Seaverns Now With Barclay Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Louis C Seaverns has become associated with Barclay Investment Co., 39 South La Salle Street. Mr. Seaverns was formerly with Wilson, McMaster & Co. and Shearson, Hammill & Co. In the past he was a partner of Abbott, Proctor & Paine.

Three With McDonald & Company

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Christopher T. G. Manners, Fred J. Twilling and Robert M. Twilling have become associated with McDonald & Company, 1009 Baltimore Avenue. Mr. Manners was previously with Goffe & Carkener, Inc.

R. E. Petersen Opens

(Special to THE FINANCIAL CHRONICLE)

BERLIN, WIS.—Ralph E. Petersen is engaging in a securities business from offices at 180 North Adams Avenue.

Joins Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—John S. Kilzer has joined the staff of Herrick, Waddell & Reed, Inc., 418 Locust Street.

Observations

(Continued from page 5)

under-valuation would be confirmed, as in 1941-'42, by noting the public's indiscriminate liquidation after the outbreak of war without logical calculation of the impact of war and inflation on equities, generally or on specific issues or as compared with the alternative choice of holding money.

Applied to a stock group, such opportunity for taking advantage of recognition of the public's fallacies, has been continually offered in public utility company shares. Formerly during the speculation-bubbling 1920s the mere device of throwing operating companies into a holding entity was paid for by high market premiums; and the greater the pyramidings, up to the third and fourth degrees, the higher were the premiums—usually inflated in geometric progression —eagerly paid by the public. Now conversely, in the atmosphere of investor depression prejudice against the formation of a mere one-degree management holding company (with its honesty enhanced by SEC supervision), is the *prima facie* reason for the public's pricing its constituent operating units at a sizable **discount in lieu of the premium of the earlier period. Realization of the public's illogical behavior should in the earlier period have reinforced the realistic investor in his appraisal of over-valuation, as it now conversely supplies the welcome reason for the market's under-valuation of these securities which he may have discerned from appraisal factors.**

Diversification

Diversification, always the desirable keystone of practical investment policy, under the host of economic and political imponderables imminent in our post-election world, is now all the more important. The logical investor must assume that he, at least, does not know the answer to the endlessly raging public argument as to whether we are facing war or peace, or in any case inflation or deflation. Instead of betting on either alternative, he must hedge against them. Thus he will place part of his funds in fixed-interest securities (bonds) to maintain his principal and income against future deflation or depression, and part in equities (common stocks) to help the maintenance of his position in the event of inflation, dollar-depreciation, or/and business boom. Such diversification between fixed-interest and equity securities must be supplemented by distribution among different industries to hedge against elements like more or less government encroachment, rising or falling wages and other costs, and even against the unpredictable actual effects of war on specific businesses. We saw that the actual impact of World War II on different industries in most cases contradicted the wealth of previous predictions—the stocks of aircraft manufacturing companies, an armament industry, perversely went down during most of the period, while the long-abused railroads were given a fillip which is still unexpectedly booming them.

In addition to diversifying among securities, the manager of capital should distribute his funds among different kinds of outlets for money—possibly in real estate and perhaps even in privately-owned business ventures.

The Long-Term Record of Price Irregularity

The need for diversification is clearly demonstrated by the market's long-term record of selectivity in peace as well as in wartime. Despite the major decline by more than one-half of the Dow-Jones Average of industrial shares since its 1929 all-time peak, nevertheless about 200 listed companies are selling above their highs of 1929; about 150 are now higher than both 1929 and 1937; and for the period since V-J day the market shows a completely heterogeneous mixture of simultaneous net advances and declines. Even within industries, we see as examples of contrary price behavior during the past two years, that, in chemicals Union Carbide has risen while duPont has declined; Standard of New Jersey and Pure Oil have advanced while Texas Co. has declined; among the retailers Montgomery Ward and May have fallen substantially while Sears and Kress are practically unchanged, and among the steels Jones and Laughlin has declined sharply, U. S. Steel fell slightly, Bethlehem remained unchanged, while Youngstown has risen by 15%. Only diversification, together with careful analysis on the above-outlined value basis, can in advance take care of the factors which habitually result in such irregular price performance.

* * * *

All the more under our prospects for even greater political and economic complexity, does it behoove the investor to concentrate on logical realistic policies, in lieu of following easier courses like forecasting "the market" as a whole, by chasing the news or by assuming future trends from its past performance.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 17	98.5	97.5	96.1	96.8
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 17	1,775,400	1,757,400	1,753,200	1,693,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 2	‡5,452,750	‡5,343,100	5,531,450	5,207,550
Crude runs to stills—daily average (bbls.)	Oct. 2	§4,965,000	§4,789,000	5,506,000	5,309,000
Gasoline output (bbls.)	Oct. 2	§15,369,000	§15,100,000	17,645,000	16,458,000
Kerosene output (bbls.)	Oct. 2	§2,320,000	§2,194,000	1,981,000	2,071,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 2	§6,467,000	§5,997,000	7,182,000	6,241,000
Residual fuel oil output (bbls.)	Oct. 2	§6,689,000	§6,380,000	8,598,000	8,517,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 2	§79,252,000	§78,669,000	94,893,000	81,607,000
Kerosene (bbls.) at	Oct. 2	§26,048,000	§25,055,000	23,721,000	22,778,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 2	§63,529,000	§61,884,000	68,969,000	60,223,000
Residual fuel oil (bbls.) at	Oct. 2	§37,498,000	§37,326,000	72,308,000	57,504,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 2	908,581	907,971	895,279	942,455
Revenue freight rec'd from connections (number of cars)	Oct. 2	726,859	715,334	698,000	735,864
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 7	$170,200,000	$128,139,000	$106,894,000	$92,983,000
Private construction	Oct. 7	101,031,000	59,530,000	33,177,000	44,819,000
Public construction	Oct. 7	69,169,000	68,609,000	73,717,000	48,164,000
State and municipal	Oct. 7	61,253,000	48,020,000	56,434,000	43,958,000
Federal	Oct. 7	7,916,000	20,589,000	17,283,000	4,206,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 2	11,645,000	11,840,000	11,980,000	12,254,000
Pennsylvania anthracite (tons)	Oct. 2	1,233,000	1,200,000	1,162,000	1,293,000
Beehive coke (tons)	Oct. 2	146,000	*145,500	149,300	138,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 2	327	*319	308	326
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 9	5,481,632	5,448,554	5,166,126	4,958,062
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 7	107	112	83	62
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 5	3.75255c	3.75255c	3.75255c	3.19541c
Pig iron (per gross ton)	Oct. 5	$46.07	$45.07	$44.66	$36.93
Scrap steel (per gross ton)	Oct. 5	43.16	43.16	43.16	38.08
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 6	23.200c	23.200c	23.200c	21.225c
Export refinery at	Oct. 6	23.425c	23.425c	23.425c	21.400c
Straits tin (New York) at	Oct. 6	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Oct. 6	19.500c	19.500c	19.500c	15.000c
Lead (St. Louis) at	Oct. 6	19.300c	19.300c	19.300c	14.800c
Zinc (East St. Louis) at	Oct. 6	15.000c	15.000c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 11	100.69	100.70	100.69	103.69
Average corporate	Oct. 11	111.25	111.25	111.44	114.27
Aaa	Oct. 11	116.41	116.22	116.22	118.80
Aa	Oct. 11	114.27	114.46	114.27	117.40
A	Oct. 11	110.52	110.52	110.70	114.27
Baa	Oct. 11	104.31	104.66	104.83	107.09
Railroad Group	Oct. 11	106.74	107.09	107.27	109.42
Public Utilities Group	Oct. 11	112.00	112.00	111.62	115.82
Industrials Group	Oct. 11	115.24	115.24	115.24	117.80
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 11	2.45	2.45	2.45	2.25
Average corporate	Oct. 11	3.10	3.10	3.09	2.94
Aaa	Oct. 11	2.83	2.84	2.84	2.71
Aa	Oct. 11	2.94	2.93	2.94	2.78
A	Oct. 11	3.14	3.14	3.13	2.94
Baa	Oct. 11	3.49	3.47	3.46	3.33
Railroad Group	Oct. 11	3.35	3.33	3.32	3.20
Public Utilities Group	Oct. 11	3.06	3.06	3.08	2.86
Industrials Group	Oct. 11	2.89	2.89	2.89	2.76
MOODY'S COMMODITY INDEX	Oct. 11	406.9	398.2	421.7	446.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Oct. 9	235.8	238.9	242.7	232.1
Fats and oils	Oct. 9	211.0	205.6	224.4	234.8
Farm products	Oct. 9	255.6	259.8	270.0	266.3
Cotton	Oct. 9	296.3	296.8	294.9	297.6
Grains	Oct. 9	212.2	209.9	224.2	294.9
Livestock	Oct. 9	266.9	274.1	287.2	262.1
Fuels	Oct. 9	233.8	233.8	233.8	190.3
Miscellaneous commodities	Oct. 9	168.7	170.1	168.8	169.3
Textiles	Oct. 9	193.8	194.1	197.2	215.7
Metals	Oct. 9	187.8	187.5	187.5	159.1
Building materials	Oct. 9	232.5	235.6	235.3	232.7
Chemicals and drugs	Oct. 9	156.4	157.5	155.3	151.5
Fertilizer materials	Oct. 9	142.2	142.2	140.9	133.6
Fertilizers	Oct. 9	149.8	149.8	147.5	135.7
Farm machinery	Oct. 9	146.0	146.0	144.5	127.1
All groups combined	Oct. 9	220.1	222.4	225.9	213.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 2	209,094	165,103	234,396	233,861
Production (tons)	Oct. 2	191.033	188.146	182.685	176,834
Percentage of activity	Oct. 2	96	94	91	100
Unfilled orders (tons) at	Oct. 2	375,884	358,586	392,753	492,845
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 8	144.4	143.9	144.7	146.3
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 2	167.1	168.7	167.4	157.1
Farm products	Oct. 2	186.4	190.8	187.8	187.5
Foods	Oct. 2	183.9	187.8	184.0	178.3
Hides and leather products	Oct. 2	187.9	187.9	189.2	186.7
Textile products	Oct. 2	146.5	146.7	147.5	141.0
Fuel and lighting materials	Oct. 2	138.2	137.8	137.6	115.3
Metal and metal products	Oct. 2	171.8	171.8	172.0	150.7
Building materials	Oct. 2	203.1	202.9	203.2	182.3
Chemicals and allied products	Oct. 2	133.6	133.5	132.1	123.9
Housefurnishings goods	Oct. 2	147.9	147.8	146.9	131.9
Miscellaneous commodities	Oct. 2	119.1	119.3	118.5	115.9
Special groups—					
Raw materials	Oct. 2	179.7	182.4	180.7	172.9
Semi-manufactured articles	Oct. 2	158.5	158.3	158.7	151.3
Manufactured products	Oct. 2	163.1	164.4	163.0	151.4
All comodities other than farm products	Oct. 2	162.8	163.8	162.8	150.4
All commodities other than farm products and foods	Oct. 2	153.4	153.3	153.3	138.6

*Revised figure. ‡Reflects effect of strike in California. §Excluding California figures which were unavailable due to refinery strike.

	Latest Month	Previous Month	Year Ago
AMERICAN ZINC INSTITUTE, INC.—Month of September:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	64,721	68,180	67,867
Shipments (tons of 2,000 lbs.)	68,850	68,605	92,549
Stocks at end of period (tons)	41,117	45,246	136,574
Unfilled orders at end of period (tons)	50,939	60,357	38,041
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS RECORD — Month of September:			
Total U. S. construction	$665,417,000	$563,792,000	$494,805,000
Private construction	304,631,000	233,015,000	301,785,000
Public construction	360,786,000	330,777,000	193,020,000
State and Municipal	282,983,000	253,210,000	152,979,000
Federal	77,803,000	77,560,000	40,041,000
COAL OUTPUT (BUREAU OF MINES)—Month of September:			
Bituminous coal and lignite (net tons)	50,540,000	53,450,000	52,381,000
Pennsylvania anthracite (net tons)	5,005,000	*5,121,000	5,158,000
Beehive coke (net tons)	604,000	615,900	593,600
COKE (BUREAU OF MINES)—Month of Aug.:			
Production (net tons)	6,458,389	6,147,968	6,253,400
Oven coke (net tons)	5,842,523	5,712,851	5,664,700
Beehive coke (net tons)	615,866	435,117	588,700
Oven coke stocks at end of month (net tons)	1,123,055	939,677	982,067
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of Aug. 31:			
Total consumer credit	$14,332	$14,185	$11,454
Instalment credit	7,553	7,328	5,198
Sale credit	3,640	3,477	2,167
Automobile	1,804	1,689	965
Other	1,836	1,788	1,202
Loan credit	3,913	3,851	3,031
Noninstallment credit	6,829	6,857	6,256
Charge accounts	3,148	3,202	2,755
Single payment loans	2,717	2,698	2,581
Service credit	964	957	920
COTTON ACREAGE—U. S. DEPT. OF AGRICULTURE—As of Oct. 1:			
Acreage	23,323,000	23,323,000	21,148,000
Production 500-lb. gross bales	15,079,000	15,219,000	11,857,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Oct. 1	5,309,939	------	3,902,401
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of September:			
Adjusted for seasonal variation	313	311	294
Without seasonal adjustment	319	*259	300
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of July:			
All manufacturing	12,973,000	*12,954,000	12,562,000
Durable goods	6,667,000	6,658,000	6,452,000
Non-durable goods	6,306,000	*6,296,000	6,110,000
Employment indexes—			
All manufacturing	158.4	158.1	153.3
Durable goods	184.6	184.4	178.7
Non-durable goods	137.7	*137.4	133.4
Payroll indexes—			
All manufacturing	360.1	*359.0	321.8
Durable goods	403.1	401.3	359.4
Non-durable goods	318.1	*317.7	285.1
Estimated number of employees in manufacturing industries—			
All manufacturing	16,155,000	*16,113,000	15,580,000
Durable goods	8,145,000	*8,121,000	7,874,000
Non-durable goods	8,010,000	*7,992,000	7,706,000
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE) — Month of August:			
Shipments (in pounds)	497,000	212,000	253,000
METAL PRICES (E. & M. J. QUOTATIONS)— Average for Month of September:			
Copper (per pound)—			
Electrolytic, domestic refinery	23.200c	23.085c	21.225c
Electrolytic, export refinery	23.425c	23.425c	21.388c
Lead (per pound)—			
New York	19.500c	19.500c	15.000c
St. Louis	19.300c	19.300c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	75.345c	73.835c	70.601c
Silver, London (pence per ounce)	45.932d	44.667c	42.744d
Sterling Exchange (Check)	$4.02750	$4.02750	$4.02631
Tin (per pound)—			
New York Straits	103.000c	103.000c	80.000c
New York, Chinese or 99%	102.400c	102.400c	78.900c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$75.040	$75.000	$81.640
¶Antimony (per pound) (E. & M. J.)	38.170c	38.170c	35.940c
Antimony, (per pound), bulk, Laredo	35.000c	35.000c	33.000c
Antimony (per pound), in cases, Laredo	35.500c	35.500c	33.500c
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined, per ounce	$93.000	$93.000	$63.640
†Cadmium (per pound)	$1.900	$1.900	$1.750
‡Cadmium (per pound)	$1.950	$1.950	$1.775
§Cadmium (per pound)	$2.000	$2.000	$1.800
Aluminum, 99% plus, ingot (per pound)	16.000c	16.000c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—East St. Louis	15.000c	15.000c	10.500c
**Nickel	40.000c	40.000c	Not avail.
MONEY IN CIRCULATION—TREASURY DEPT.			
As of August 31 (000's omitted)	$28,055,225	$27,866,073	$28,434,214
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of August:			
Total operating revenues	$868,089,239	$841,993,545	$745,976,270
Total operating expenses	637,361,854	626,159,046	565,956,187
Operating ratio — per cent	73.42	74.37	75.87
Taxes	$99,842,934	$96,398,698	$84,256,779
Net railway operating income before charges	115,694,714	105,256,808	81,145,524
Net income after charges (est.)	86,000,000	76,700,000	53,000,000
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of August: (000's omitted):			
Exports	$988,200	$1,022,000	$1,265,000
Imports	598,400	558,500	400,217
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Sept. 30	$252,737,847	$253,100,807	$259,220,548
General fund balance	5,582,956	4,832,229	3,952,317
Net debt	$247,154,891	$248,268,578	$255,368,231
Computed annual interest rate	2.200%	2.199%	2.128%

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot, packed in cases, f. o. b. New York.
**F.O.B. Port Colborne, N. S. U. S. duty included.

A Stock Market Forecast

(Continued from first page)

still seeing the effect of the inflation spiral which was released by this action.

By the spring of 1946, when we found that the New Deal economic doctors had prescribed and administered a stimulant for a patient who was more in need of a sedative, psychology went to the other extreme and "the only thing that mattered" was the inevitable crack-up of OPA. All through the spring of that year, when the market as a whole was selling at the highest levels touched in 15 years (*and* at the historically high level of about 17 times the indicated earnings for that year) it was difficult to direct the attention of investors and businessmen to anything except the impending rise in the general price level.

After the widely publicized Dow Theory gave a "bear market" signal on Sept. 3 (when the Dow-Jones Industrial Average first broke the Feb., 1946 lows and closed at 178.68), it suddenly became popular to look only at the bearish side of the economic picture and, specifically, to expect a repetition of the 1919-1921 market and business pattern. This theme was in the forefront of most market analyses up until May of this year, when the market finally cleared the 1947 highs (and thereby canceled, at the 188 level, the bear market signal given on Sept. 3, 1946). After a further rise of only about 3%, attention suddenly became focused almost entirely on the possibility of an early outbreak of World War III. All that this development did, however, was to shift the excuses or "reasons" for expecting the decline in corporate earnings with which we have been threatened ever since V-J Day, to such factors as possible excess-profits taxes, new governmental controls, et cetera.

The undercurrent of fear which has prevailed during the greater part of the past two years can be traced first to the propaganda put out by the economic planners in Washington, and secondly, to the influence of the Dow Theory. Unfortunately, this fear technique sponsored by the New Dealers has left a lasting imprint on public psychology even after the bases for fears have proved unwarranted. It takes time to undo the damage to confidence by the repeated predictions of an impending collapse in earnings which have been so much in style since October, 1946.

Before we analyze the current picture, it might be well to go over briefly the factors in our economy which have been overlooked, or at least underestimated, by those who have been predicting a major decline in business and stock prices during the past two years.

Sustaining Factors in Our Economy

Business activity, on the whole, has been at what might be called "boom" levels ever since the last half of 1946. There have been several periods, as noted above, when an immediate general business recession was considered virtually inevitable because of temporary declines in the demand for textiles, a decline in contracts for new construction, and/or because of sharp declines in the prices of agricultural products. In each instance subsequent events proved that these fears were groundless, or at least unduly exaggerated. At no time did a slowing down in any segment of our economy result in the type of downward spiral which brings about a self-generating business recession.

The fundamental factors which, in our opinion, continue to dominate the overall business outlook include the following:

(1) An indicated demand for all of the passenger cars and light trucks which can be produced during the next 12 to 18 months.

(2) The continuation of an export surplus of at least $5 to $6 billion a year, or about five times the prewar average.

(3) An extremely large backlog of savings built up during the war period.

(4) The high level of government expenditures for armament and other purposes.

(5) A tremendous potential supply of credit, which can be reduced to only a very small extent, in view of political commitments to support long-term government bonds at or near par.

(6) A continued shortage of housing, which is being corrected only gradually because of the labor and material bottlenecks which limit the building of housing units to only a few hundred thousand a year in excess of the number destroyed by fire or obsolescence, plus the number of new families being created each year.

(7) The very large backlog of public works projects which are being held up largely because of the shortages of manpower and building materials.

(8) A moderate decline in prices of agricultural commodities, which helps to bring these prices into better balance with those of industrial products.

All of the above factors are, I believe, self-evident. It might be in order to devote a little more attention to some of the offsetting unfavorable factors, inasmuch as these appear to be securing the greatest amount of attention.

Unfavorable Factors in the Business Outlook

(1) *The high level of prices is forcing some consumers out of the market for certain types of goods*—This is perfectly true, but the overall picture is one of a very high level of total consumer demand. It is estimated that about one-third of the American public are now worse off than they were in 1939 because their incomes have not kept pace with the rise in costs. However, two-thirds are better off, and in some cases the buying power of individual groups is more than double that of 1939; in few instances has the buying power of any group declined by a comparable percentage. *Total personal incomes, after taxes,* are now running at the rate of $187 billion per year. This compares with $151 billion in 1945 and $70 billion in 1939. The increase of 140% since 1939 compares with a rise in the cost of living of about 73%. Quite obviously, the over-all buying power of the American public, without regard to the high level of previously accumulated savings, is sufficient to sustain a high level of demand.

(2) *Many individuals are again living beyond their current incomes*—This point has been stressed in a number of propaganda releases by our government, in connection with the drive for the reenactment of price and credit controls. Should not this development be considered in light of the fact that it has always been true that many American families live beyond their incomes? And is it not also true that some of the wartime savings were earmarked for postwar spending? As I have pointed out in previous reviews of the market outlook, personal savings during the four years 1942-1945 reached an average of $30 billion a year, as compared with a maximum level of savings in any year before 1941 of $3.9 billion. Surely we are going out of our way to find something to worry about if we "discover" that some of the people who put money aside during the war to buy washing machines or automobiles, or to modernize their homes, are starting to spend a small part of this money. Unfortunately, no figures are available as to the current rate of spending of the wartime savings. (Net personal savings are currently running at the rate of $12 billion a year, in spite of the evidence of dissaving by some families.) However, even if the American public as a whole were currently spending between $5 billion and $10 billion a year of their wartime savings, this rate of spending could go on for another five or six years before exhausting the indicated excess savings of the war period, over and above the pre-war average rate of savings.

(3) *Plant expansion appears to have reached or passed its crest*—This is not true of all industries or companies, but the probabilities are that there will be a decline of about 20% to 25% in industrial plant construction during 1949, as compared with 1948. This does not appear to be a serious matter, however, inasmuch as a great deal of public works, commercial building, and housing has been held up during the past three years because of the competition for labor and materials by the industrial construction division of the building industry. This alone would seem to insure a well-sustained level of building activity throughout 1949, even though it may be necessary to reduce over-all operations for the year as a whole by as much as 5%, in order to bring about a better balance between the supply and demand of labor and critical materials.

(4) *Inventories are piling up in certain fields, and particularly in soft goods*—If we can judge by experience, this is merely evidence that we are in an advanced stage of the business cycle, rather than that a major decline is imminent. It might be well to recall that the overproduction of table model radio sets and the backing up of inventories of shoes and cotton goods in the spring of 1947 were heralded as signs of an imminent general collapse in business at that time. What actually happened? There was a moderate reduction in production, an increase in selling efforts, and a rise in the level of earnings and sales of the more strongly situated companies to new high levels! It seems to be a little unrealistic to expect curtailment of production in a few lines, as pipelines are filled, to lead to a downward spiral in all business when such a large segment of our population cannot secure all the goods that they need and can still afford.

(5) *The supply of credit is being curtailed through Federal Reserve action*—The second increase in the rediscount rate (of ¼%) to 1½%, and the increase in reserve requirements, have led to a fear of an early deflation via the bank credit route. In the past, several inflationary booms apparently have been brought to a halt by deliberate Federal Reserve action. The fact is overlooked, however, that it has usually taken fairly drastic action to stop a boom, and that a moderate rise in the rediscount rate has never led to an early collapse in business (or in stock prices). For example, there were a series of increases in the rediscount rate by one or more of the Federal Reserve banks, starting in December of 1917. The average rate for the 12 Federal Reserve banks stood at 4.3% from February to November, 1917, but by progressive steps rose to 4.8% by June, 1918 (and to 6.0% by February, 1920). From November, 1917, to June, 1918, the Dow-Jones Industrial Average had risen by only 17 points, or by less than one-third of the 54-point (80%) advance which was to be recorded before the bull market ran its course in November, 1919. In the **1926-1929** period, after holding at an average rate of 3.5% during the last quarter of 1927, there were a series of increases which brought the average rate up to 4.8% by August, 1928 (which level held through the following February), and to over 5% by August, 1929. It seems difficult to understand why anyone should assume that this time a ½% rise in rates to a level of only 1½% is likely to have a more prompt effect than did the increases announced in early 1918 or during 1928. Furthermore, we now have a situation where the decision to support government bonds at par can have the effect of more than offsetting anything the Federal Reserve Board might do in the way of raising reserve requirements to the maximum permitted by law, or in ordering further increases in the rediscount rate.

Psychological Factors

There is a school of thought which concedes the possibility of well sustained business activity for some time to come, but still insists that stocks in general are in a selling rather than in a buying zone. In order to follow the principle of looking at both sides of the picture, it is necessary to examine the assumptions or beliefs of this group.

(1) *Common stocks are historically high*—In my opinion, this is one of the most naive and misleading of the various arguments advanced to defend the bearishness on the stock market outlook which has been so prevalent since October, 1946. This approach totally disregards the relationship of stock prices to earnings, or the current value of the dollar. It also ignores the very substantial increase in the basic earning assets of the average company *even in prewar dollars*. It is perfectly true that the current price level "has been exceeded or equaled in only ten of the past 50 years," but it is equally true that the indicated potential earning power of domestic corporations has probably been equaled in only one or two of the past 50 years. As stated in my "Chronicle" article on Oct. 2, 1947, *similar reasoning, had it been applied in 1923 or 1924, would have led to the conclusion that stocks were "historically high" when they reached a level of 105 in each of these two years,* inasmuch as the Dow-Jones Industrial Average had sold above 110 during only one of the preceding 26 years. This index advanced to above 200 by 1927, and to 381 by 1929!

(2) *Common stocks do not provide inflation protection*—This statement is defended by tabulations showing that stock prices during certain periods in the market cycle have been lower than they were at previous periods, even though there had been a substantial net advance in the general price level. It is perfectly true that there is no month-to-month or year-to-year correlation between commodity and stock prices, but the conclusion cannot be avoided that historically and logically, there is a *long-term* correlation between equity and commodity prices. Stocks naturally reflect to only a limited extent any change in the price level, which is considered temporary. It is hard to see how anyone can avoid the conclusion, however, that the rise in the price level of stocks between 1923 and 1929, as compared with the 1910-1914 period, wasn't due *in large measure* to the fact that the general price level was stabilized at between 40% and 50% above pre-World War I. (The range of the Dow-Jones Industrial Average between 1910 and 1914 was 71 to 98. During the seven years from 1923 to 1929, this average fluctuated between 86 and 381.) There were other influences present, of course, but stock prices came down into the range of the early '20s (by 1931) *only when the general price level collapsed.* Since the current inflation of the price level is built argely on an expansion of Federal debt (and a Federally supported wage pattern) rather than on callable private debt (as was the case in the 20's), there is a much greater prospect that our current inflation is at least semi-permanent.

From the point of view of logic, it seems inevitable that over the longer-term, the earning power of corporations is dependent to a considerable extent on the replacement value of tangible and intangible assets, and on the dollar total of sales. New competition will be restricted unless potential competitors can see their way clear to earning a satisfactory profit on the new level of costs. Furthermore, profit margins in a competitive economy tend to work toward a level which merely represents the difference between the costs of the efficient producers and those of the marginal suppliers. I see no reason why these differences should not be as great in the future as they have been in the past. If our price level is to average say 80% above prewar, because of the basic wage policy on the one hand, and the supply of money on the other, this means that the well managed corporations can look forward to a greatly expanded level of dollar sales. It is only a question of time before this is reflected in the prices of equities, regardless of the illogical theory that stocks are not an inflation hedge.

(3) *The next important change in overall corporate profits should be on the downside*—The point is made that even if business activity does hold at near current levels during the next 12 months, reported profits may decline because of the prospect of a smaller inventory enhancement, and the relatively great impact that a small decline in demand would have on some companies' earnings. *The fact is overlooked that equity prices are not discounting the current level of earnings.* In the past, there have been several examples of a similar situation when the possible or prospective decline in earnings, once it actually occurred, was accompanied by rising stock prices. A few specific examples might suffice:

(a) DOW-JONES INDUSTRIAL AVERAGE

Year—	Earnings	Price Range	Price-Earnings Ratios High	Price-Earnings Ratios Low
1925	$13.89	159-115	11.5	8.3
1926	11.39	167-135	14.7	11.9
1927	8.72	202-153	23.2	17.5
1941	11.64	134-106	11.5	9.1
1942	8.87	120- 93	13.5	10.5
1943	8.30	149-119	17.9	14.3

(b) SELECTED ISSUES

	General Motors		Southern Pacific		Stand. Oil of N. J.	
Year—	Earn.	Pr. Range	Earn.	Pr. Range	Earn.	Pr. Range
1941	$4.44	48-29	$9.16	14- 8	$5.15	47-33
1942	3.55	45-30	22.64	18-10	3.06	47-30
1943	3.23	56-44	17.80	30-16	2.25	60-46
1944	3.68	66-52	11.09	43-23	3.08	58-51

The argument that stock prices should be expected to decline if and when earnings recede from current levels might be valid when applied to certain individual securities, which have been relatively overvalued in terms of indicated long-term earning power. This is not true of the market as a whole, as may be seen from the fact that the cross-section of the market which makes up the Dow-Jones Industrial Average is currently selling at only about ten times earnings, even if allowance

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A Stock Market Forecast

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is made for inventory profits which may be included in current earnings. Over the past 20 years, this average has sold below ten times earnings during only two years (1941 and 1947), *and the price-earnings ratios at which stocks have sold have always risen, as compared with the levels of the preceding year, when earnings declined.*

Selectivity Important

Anyone who has devoted a substantial portion of his time to the study of investments during recent years realizes that it is just as dangerous to buy indiscriminately when the underlying trend appears to be upward as it is to ignore the position and outlook of the market as a whole when adding to equity positions. The cross-currents in our economy are much more numerous than they were before the war, and, under SEC regulations, the market for most stocks has become so very thin that the distortions between values and prices frequently become very large. It is particularly important, in appraising the long-term outlook for individual companies, to estimate the potential dilution in earnings per share which would be seen if new equity capital is required. Needless to say, it is as essential as ever to make certain that the companies whose securities are purchased or held enjoy farsighted and ethical managements, rather than opportunstic and shortsighted direction. Competition as between industries as well as between companies within industries cannot be disregarded and, of course, it should be borne in mind that a semi-permanent or permanent readjustment in the general price level will not effect all companies to the same extent.

Technical Considerations

Experienced investors realize that there is always a danger of misjudging the strength or weakness of individual economic factors. These individuals frequently like to check conclusions based primarily on economic studies against some mechanical or semi-mechanical "technical" approach. It is partly for this reason that the Dow Theory and some of the Formula or Historical-Price-Level Plans have such a large following.

The long-term technical studies which we have found to be the most helpful in the past 15 years have been telling us that the October, 1946 lows in the Dow-Jones Industrial Average were not likely to be broken during 1947 or 1948, and that the underlying trend of the market will probably be upward until at least the early months of 1949. These studies had called for a decline of between 40 and 50 points in the Dow-Jones Industrial Average during 1946, from whatever highs were reached in the first two months of that year. Certain facets of this technical approach suggest that we are not likely to have a major bear market until after stock prices have risen to well above the 200 level in the Dow-Jones Industrial Average, and/or until considerable more time has elapsed from the base laid between October, 1946 and May, 1947. (We were on record with predicting a bear market during 1937, and again in 1940, on the basis of these studies.)

From a shorter-term technical point of view, it might be of interest to note that the recent decline following the Dow Theory "bull market signal" given on May 14th does not violate precedent. There have been two occasions within the past 25 years when the market has experienced a decline which cancelled between one-half and two-thirds of the initial rise in a bull market, after a relatively moderate advance following primary Dow Theory "buying" signals. These two instances occurred in 1923 and in 1939. In both cases, the subsequent further advance carried to well above the levels reached at the time of the Dow Theory "bull market" signals. In 1939, the reaction following a Dow Theory "buying" signal was also precipitated by war scares, with the leading bulletin services at that time advising extreme caution and liquidation, in the event that there was an early outbreak of World War II. (New highs for the year were recorded within 30 days after the declaration of War by England.)

Conclusion

Taking all of the known factors into consideration, it seems reasonable to expect that business as a whole will hold at very close to the current high levels for at least the next eight to ten months. As has been the case ever since October, 1946, the maladjustments in the economic picture, while increasing in number and intensity, still appear to be greatly exaggerated, and not likely to overtake the favorable factors for some time to come. Readjustments within individual industries and companies will continue to be seen, of course, but the underlying fundamentals appear strong enough, on balance, to preclude the danger of a downward spiral before late 1949 or early 1950. Corporate earnings may decline slightly from the record-breaking levels indicated for 1948, but in the case of many companies, economies resulting from the installation of new equipment and the gradual improvement in labor efficiency, should result in the maintenance of earnings at well above pre-war peak levels.

The deterioration in our relations with Russia is complicating the near-term outlook for stock prices, but on the basis of the record, any development short of an early shooting war (which seems unlikely) appears to be fully discounted. The overhanging threat of eventual hostilities may, of course prevent stocks from selling at more than 11 or 12 times earnings, as was the case in 1941. This may mean that the upward pull on the Dow-Jones Industrial Average is only toward about the 1946 high of 212, rather than to the 240 — 260 zone, which we would regard as a normal objective under real peacetime conditions. The outlook will have to be reappraised carefully, of course, as soon as any of the more dependable long-term technical studies suggest the need for a greater-than-normal degree of caution.

Menace of Government In Grain Market

(Continued from page 16)

average yearly shipments between 1930 and 1947. We are told that during the current season we shall ship a little less; yet authorities believe that 450 million bushels should be the goal. Under these circumstances markets have responded somewhat to this stimulus, but there is another factor almost as important, which I feel requires some detailing.

The Parity Support Problem

As all of you probably know, we were committed by our Congress to a loan program whereby the farmer could borrow 90% of parity on basic commodities for two years following the declaration of peace. The 80th Congress before adjourning extended this program for another year, although starting in 1950, a modified plan becomes effective. When loans were originally established, the Secretary of Arigculture had discretionary power to administer them between 52 and 75% of parity. In the early period, a lower percentage was used. Since that time, however, we have not acted in fear of low prices. We have insisted on high and still higher farm prices, regardless of the urgent need for holding inflation in check. To illustrate what an influence the loan has been, I quote from the Department of Agriculture's own periodical, "The Wheat Situation," repeated in several issues: "Wheat prices to growers advanced from an average of 68c per bushel in 1940-41 to a record high of $2.81 in mid-January, 1948. Until 1934-44, the loan program was the most important factor in domestic wheat prices."

It was my hope in the early 30's when farmers were threatened by taxes and mortgages coming due that temporary help might be rendered and that taxes might be abated during the emergency, so that producers would not lose their land. I was fearful then that a non-recourse loan might unnecessarily tie up domestic supplies, thus creating an artificial shortage in the midst of plenty. Furthermore, we learned from the Farm Board days that certain agricultural interests tried to restrain government agencies from selling accumulated stocks in order to avoid competing with the new crops. We had also seen before that when 250 million bushels wheat had fallen under federal control, the presence of this surplus was a price-depressing factor. Maybe it was for this reason that a law was later enacted forbidding CCC to sell its stocks at less than the parity price. This actually bottled up our surplus in such a way that in 1940 the carryover reserve rose to 632 million bushels, a record for all time, and about three times the normal. In 1942, our wheat crop amounted to 969 million bushels and 408 million bushels, or nearly half was impounded under loans.

I feel sure that only war averted a complete price collapse at that time. There can be little argument that when government non-recourse loans on commodities are unrealistic, and too high, finally ownership of these commodities will pass to the government by default. Failure or refusal to recognize this inescapable truth has resulted in the disastrous breakdown of many price-raising schemes throughout the world—too numerous to mention. Nor will time permit much discussion on the question of parity, concerning which there is so little real knowledge. While it was designed to restore a balance of purchasing power to the producer based on periods of favorable exchange, it has become greatly outmoded, owing to the material improvements in farming technique. Better utilization of the soil, more intensive cultivation, improved fertilizer and seed, together with mechanization, have all contributed to higher yields of farm products. The use of hybrid seed for corn, Clinton oats, and rust resistant varieties of wheat are responsible, in addition to propitious weather, for the billion-bushel wheat crops, of which we have had five successively. Likewise, we are about to harvest a 3½ billion-bushel corn crop, on the second smallest acreage in 50 years. Yet parity is computed on a basis of a bushel of grain in relation to what it will buy for the farmer, without recognition that many more bushels are being harvested on each acre of land. Thus in years of heavy production, the producer is receiving all out of proportion to that for which the original concept had provided.

With present high living costs, I am much concerned that resentment will increase to an extent which, if continued, all price supports may be scrapped, and finally farmers will lose many benefits that they have gained.

The Role of Grain Exchanges

The grain exchanges of the country have done much for agriculture and have provided a marketing place for those handling grain to sell the risks of market fluctuations to others who have the capital and temperament to assume them. Consequently, the grain trade's credit has been mobilized and safeguarded to a very high degree of business efficiency. For this reason, the banks have always loaned almost the full amount of value of the warehouse receipts.

At the present time, the government, in addition to supporting basic commodities, is lending support to about 140 other commodities in one form or another. That would mean holding a wide range of products at or near prevailing prices, despite the threat of mounting surpluses. This will undoubtedly involve our government in rather large-scale operations. Cotton is expected to demand the largest support operation in the year ahead. Should 3 or 4 million bales be impounded, it would involve at least $450 million. Oil seed crops may require $50 million in supports. Potatoes, which have given much concern to the government for years, will again receive support, and a loss of $75 million is generally expected. Losses were sustained in egg operations last year, and there is no indication of any improvement now. It is this outlook for expensive support operations, plus unfavorable public reaction, with prices held deliberately high, that may prompt a review of the entire program when Congress convenes. When that time comes, I feel that hedging operations will again gain wider acclaim, particularly by those who now rely on government support methods.

It is not pure accident that history has recorded some of the sharpest price declines due to governmental intervention when artificial means were attempted to prevent normal laws of supply and demand from functioning. Very often political attempts, which appear right in theory, have their secondary consequences. It took us several years to pay the full penalty for violating all commercial laws, and withholding our wheat surpluses from export channels, following the Farm Board Era. The very threat of substituting political laws in place of economic laws has a certain horror for all of us. The price supports are included at all in a peacetime program, they should be at distinctly low levels, designed to safeguard against real disaster and not at levels that either we or politicians may think fair and reasonable.

The grain trade has resented many of the attacks made upon it for the reasons that too many of the charges were preferred before a fair hearing had been permitted. Due to this fact, the three primary markets in this country demanded a Federal investigation last fall in order that the American people could be furnished the facts, from which it could draw its own conclusions as to whether the rapid rise in commodity prices had been occasioned by illegal and improper practices on part of the Exchanges, or whether it was the government's buying program for export which had been largely responsible for those events. We feel that it would have been a disaster had those attacks succeeded. Every person knows that the free operation of the Exchanges is essential to the system of free enterprise. The attacks upon the grain trade were, therefore, nothing less than an attack upon the American economy as a whole.

Proposals to Offset Public Debt Dangers

(Continued from page 11)

terms in veterans' housing have helped to inflate realty values and building costs, thus boomeranging on veteran home-buyers and threatening them and the government with losses when the inevitable reaction sets in.

A statutory requirement for debt retirement related to the prosperity of the country, so that the amount retired in a good year is greater than in a year of depression, is proposed.

Bond Distribution Needed

A wide distribution of government bonds in the hands of the people is described as a safeguard to the nation's welfare because it tends to discourage unwise and excessive government spending, and provides a cushion for people to meet the emergencies of unemployment, or sickness, or old age, thereby helping to keep the nation's economic life on an even keel; also it reduces the volume of inflationary money and the floating debt which has to be refunded from year to year.

Noting that over the past year or more the Treasury and Federal Reserve have been moving by a succession of steps away from the freezing of interest rates at excessively low wartime levels, the committee says that this policy will give them greater freedom to combat inflation.

The present tax system "penalizes extra effort—removes the incentive for going the extra mile," in the words of the committee, which recommends particularly lowering individual surtaxes, which today are a brake on incentive. "The 1948 Revenue Act made a good beginning in loosening those tax brakes" the committee continues, "but we must bear constantly in mind the need for going further as promptly as the fiscal and general economic situation permits.

"There may seem to be a certain contradiction in a program of reducing taxes at a time when debt reduction is so demanding. Reduction will have to be done gradually and tuned to the swings of business, prices, and the budget. But above all, it must be remembered that the objective is dynamics. If the reductions renew incentive and stimulate enterprise, they will largely pay for themselves."

The committee expresses confidence that with a program such as that recommended, "this country can carry its heavy debt load and still look forward to maintaining the free and vigorous economy that has been our glory and strength over the years. The task will not be easy. It will take courage, wisdom and a high order of statemanship on the part of our leaders, and understanding and a spirit of unity among the people."

The study was reviewed in its various stages of preparation by the entire committee and appears with the committee's approval. Mr. Burgess is Chairman of the Executive Committee of the National City Bank of New York. The studies have been financed by the Maurice and Laura Falk Foundation of Pittsburgh.

With Central Republic Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Harold B. Wright is now with Central Republic Co., U. S. National Bank Building.

Business—Today and Tomorrow

(Continued from page 4)

consists of seven Senators and seven Representatives, with Senator Taft as Chairman and Representative Wolcott as Vice-Chairman. With a small staff of economists and special service from the Legislative Reference Service of the Library of Congress, it examines the President's Economic Report as a whole, criticizes its conclusion and recommendations as the Committee sees fit, and frames an over-all legislative program of its own. This outline it uses as a guide and criterion against which to evaluate the various bills coming up from all the special committees of the Congress as to whether they appear to be consistent or inconsistent in their economic logic and consonant or inconsonant with an integrated program of sustained national prosperity.

This brief statement of the Employment Act and its implementing agencies sets forth a national objective of sustained high production and the high real purchasing power that goes with it. As the line of practical approach to that objective, it contemplates an integrated program for the economy rather than blind struggle of special interest groups. As to what are the principles of sound adjustment of the several parts of our economic mechanism one to another, that is the technical problem of the economist. The Council and its staff are intensively pursuing that task, and we hope to exercise some stimulating and directive influence toward widespread cooperation in the profession in solving these problems as they are posed by the policy objective set forth in the Employment Act. These solutions cannot be sought in laboratory conditions but only through realistic study of and experimentation in a real world of practical day-to-day operation. It will require a great deal of uninhibited re-thinking of our formal economics and considerable revamping of our business practices. A few of the theoretical approaches and the practical adjustments will be illustrated if we consider the current economic prospects and their specific relations to the transit industry.

When Mr. Hacker invited me to address your convention, he wrote:

"Earnings of the transit industry are affected in singular degree by the state of the general domestic economy. In your talk, we would hope that you might discuss the outlook for the domestic economy in the next year or two, or even for a longer period should you care to do so. Some of the specific questions in which the industry is particularly interested are: the probable outlook for the level of physical production of goods and industrial employment, likelihood of a so-called 'fourth round' of wage increases, the probable trend of prices and, finally, the question of whether the combination of the European Recovery program and the domestic preparedness program will tend to offset or more than offset production sags which might otherwise develop at present levels in the domestic economy.

"We, of course, do not expect you to make definite predictions, but rather to discuss various possibilities as you see the present trend of developments, and give some indication of their probable effects. It is our thought that such a talk would serve to keynote the entire convention business program and give transit executives some idea of the various considerations they will have to keep in mind in making their plans for the next year or two."

Now this is about the most clear-cut and competent set of specifications I have ever received in connection with a request for a speech. Such a laying-out of the needs or expectations of the audience is invaluable as a guide to a conscientious speaker, and I shall try to follow the specifications in a workmanlike manner.

First, I have already indicated that for the first time in history we have set up a carefully designed machinery, executive and legislative, for tackling the affairs of a whole economy on a basis approaching engineering efficiency. I believe that action holds a significant degree of reassurance for the future of business in this country. The actual outcome will depend on importantly how well the government discharges its responsibilities to make favorable conditions for the continuance of high employment and production. But management, labor and the farmer must also cooperate with each other under these institutional arrangements or, in terms of your first question, the outlook for continued high production and employment will be dimmed.

Here I want to divide my suggested answers to the question you raise into two parts, applying roughly to prospects for the next year and those for the longer-term. Most careful students are agreed, I believe, that the momentum of buyer demands, operative plans and financial resources are such as to enable use to go along for another year without any great likelihood of serious upset. Such a judgment of course rests upon a number of assumptions of which the continuation of a vigorous defense program is perhaps the most outstanding. If we should shortly be forced from a defense to a war basis, obviously we would be off again on a very different tack, characterized by deficit financing and economic controls. On the basis of the present "cold war" status, I should say production and employment are supported on a high level, but without an inevitable trend to further dangerous inflation.

Danger of Current Slogans

As this point I want to sound a note of warning as to the basis upon which you attempt to make up your minds as to future economic prospects. I urge that you do not allow yourselves to fall victim to the current slogan: "The longer prosperity lasts and the higher employment, production and prices rise, the more inevitable becomes a bust and the bigger will it be." Sometimes this is elaborated into the proposition that the crash will follow the war by the same number of months that the war lasts. Such reasoning by analogy should be firmly discarded in favor of reasoning by analysis. Perhaps such a warning is superfluous in this audience. But I believe in having a margin of safety.

I take it that a large number of you are conditioned by training in our engineering schools. You are accustomed to the use of measurement devices and the cause-and-effect reasoning of science. These are methods which should stand you in good stead in identifying and in gauging the intensity of economic forces and in reasoning as to how a given combination of such forces and materials, even though complex, is likely to work itself out. The cause and result relationships which are critical are, of course, those among prices, incomes and tax flows. Just one caution here is to remind you that economics is a social science, not a natural science, that we are dealing with human behavior—and human behavior in a free society—not with merely mechanical processes or chemical reactions and certainly not with controls such as can be established in the laboratory or the processing plant.

To give the devil his due, we must recognize that such cliches as "The bigger the boom, the bigger the bust" do not arise without some basis in practical observation. The kernel of sense in this one is that so-called booms have very commonly involved a large degree of overexpansion in plant and inventory or in particular types of plant and inventory as compared with others and in extreme overcapitalization of properties, particularly stock market securities and real estate, both urban and rural. They also involve overpricing of commodities as compared with cost factors and are supported by speculative hoarding of stocks.

Contrasts With 1920

Now a little examination of our present situation will show that these conditions are not widely prevalent. We do not have reckless overdevelopment of untried industrial enterprises or of established types of business in excess of any discernible capacity of well-employed consumers to buy the product. On the contrary, there is continued inability of steel mills, automobile factories, oil wells and refineries, electric power plants, and many other producing lines to supply current needs and little evidence of important excess capacity above the prospective growing population with standards of living rising at rates we have experienced in the past. There are not great speculative accumulations of inventory, but a continual trimming and balancing so as not to be overextended if price recession comes. Of course, the inventories necessary to efficient operation at high volume rapidly become redundant if unemployment gains any great headway.

Some proper concern is being expressed over real estate prices and the amount of mortgage indebtedness. But there is nothing comparable to the Miami land boom of the twenties. Likewise, there is notable absence of a skyrocketing stock market such as contributed so largely to the collapse of 1929. Instead, there has been a clinging to—or a recurrent return—to levels of security prices so low as to puzzle the commentators. Perhaps this record may presage a new market pattern more compatible with stabilized prosperity.

It may well be argued that agriculture has for several years been out of line with the general economic structure and that the extreme level of farm prices has been a major factor in the inflationary spiral. The marked upturn in the agricultural supply situation now raises fears lest a collapse of farm prices might in the near future demoralize the whole commodity market and usher in a general depression. This sector of our economy, however, illustrates perfectly what I said about the danger of reasoning by analogy. One important reason you cannot expect the economy to follow a pattern set on previous occasions is because of the changes that have taken place in economic institutions in the interval. Perhaps the same economy would operate in the same way. But "it is elementary, Watson," that we don't have the same economy or economic structure in 1948 that we had in 1928 or 1918, still less that we had in 1907, in 1893, or in 1873.

The agricultural collapses of the early 20's and the early 30's led us to provide some stabilization devices to prevent rural distress from snowballing into general unprosperity. These measures were crude, but are in the process of being revised and improved. If made flexible according to a well-engineered formula, they should prevent a repetition of the agricultural debacle that has undermined the industrial situation on several previous occasions. It has been conspicuous in recent years that the agricultural adjustment devices so far developed were one-sided in that they did not provide means of protecting the public—and in the last run, agriculture itself—against undue enhancement of agricultural prices in the boom phase. While that should be attended to in the future, it is water under the bridge as far as the present situation is concerned, with its prospect of early adjustment of agricultural prices to an abundance rather than a scarcity level. For the next year the prospect is that agricultural prices with their important effects on industry are definitely downward but not collapsing and with total farm income high enough to continue an excellent rural market.[1]

Prospects of Continued High Employment

The short-run outlook in the labor field seems to me also to be one of lessening instability. There seems to be clear prospect of continued high employment or even labor shortage at certain spots. This will tend toward some further wage increases, but I am by no means sure that they will assume the magnitude of a "fourth round." Indeed, I deprecate the use of this phrase. It is a hangover from the thoroughly undesirable "pattern" settlements of a short time back. We should examine particular situations, notably the coal wage settlement of last July. We are still in the process of absorbing the industrial consequences of that advance and I suspect that we shall be finding somewhat greater difficulty in passing this and related wage increases on in price increases. If so, we may expect fewer and smaller wage raises.

Labor believes in "making hay while the sun shines," and it has been getting in quite a crop during the last few years. As it comes to digest this hay it will probably find a little less succulent and palatable than it anticipated. The next problem will be to assure steady employment at the high rates, and that involves facing the issues of labor cost, prices, and the absorptive power of the market. If some important goods are priced out of a substantial share of the market, some workers may find themselves priced out of employment unless their wage ideas are revised or their productivity improved. Cost absorption and profit rates also are involved in this issue, but this question merges into the issue of longer-range prospects, and I will return to it shortly.

Next, you raise the question of the near-term prospect for prices. Well, what are the general price-making factors? We see an upward thrust of wage costs and shortage of certain materials, particularly metals, and a downward pressure of more adequate supplies of most farm products and an increasing number of industrial products. These cross-currents will naturally produce a profusion of both plus and minus signs in the price list, with some further moderate rise in the average much more likely than either collapse or runaway inflation.

The real test of our business system seems to me to come in the longer run rather than in 1949. But its germs are already present and at work. In my judgment, the broad basic elements in the economic situation are so sound and constructive that it is technically possible to get off the artificial prosperity of the war and reconstruction period onto a basis of sustained peacetime prosperity. But this will require a considerable amount of mutual tolerance and acceptances of basic economic realities. There are plenty of things to be done by and for our people so that there is no basic reason for a partial paralysis of productive action either in an acute depression or a prolonged stagnation. That can happen only if we stubbornly try to perpetuate stimulated and somewhat distorted relationships of a great war and a postwar catching-up period rather than settling down to hammer out the permanently workable relationships needed for and possible in a peacetime economy.

Long Range Outlook

This brings me to brief comment on the longer-range outlook. Here we must admit that we have not yet really come to grips with our fundamental problem—much less solved it. That problem I have defined in some of my past writings as "balancing the income structure with the price structure" so that a full flow of goods and services is promptly absorbed from the market. Recent inflation is simply the manifestation of a situation in which income derived from full use of our productive powers and from past savings and credit drafts on the future goes into the market as monetary demand while the supply available for purchase is only a fraction of the total supply turned out—the balance going to feed a cold war.

All this is implied in Mr. Hecker's question: "Will the combination of the European Recovery Program and the domestic preparedness program offset or more than offset sags which might otherwise develop at present levels in our domestic economy?" His question recognizes that there will be a certain kind of sag in demand as we get to the close of the catching-up period of filling pipelines and completing deferred maintenance. It recognizes also that that catching-up has been deferred by the need to bolster great parts of the free world against the menace of totalitarianism. And my answer to the question is very direct and simple. The evidence seems to me to indicate that the cold war program being projected would rather more than offset the probable overtaking of domestic demand at current price levels by agricultural and industrial supply. If we move from a military budget of $15 billion to one of $16 or $18 billion in 1950 or 1951, I do not see how it could fail to fan the fires of inflation or at least retard the process of permanent price adjustment.

If, on the other hand, the need for costly defense should lessen or we should find ways of providing really effective protection more efficiently, that is at lower cost, then we shall face the showdown of thoroughgoing business adjustment to a true peacetime basis. This will be a challenge to management, to labor and to agriculture. As we move from the area of sellers' market to that of buyers' market, business is exposed to forces of competition from which it has been sheltered in greater or less degree for some seven years. Some of the parties

(Continued on page 43)

[1] A second built-in stabilization device grows out of our system of sharply progressive income taxation which tends to damp off excessive purchasing power in the boom phase and to grant consumers and business buyers substantial relief as profits, wages, sales and employment tend to fall. A great deal has been said about the burdensome effect of high taxation in the last year or two, but I suppose if they had feeling, the drums on your car would complain of heat and pressure when the brakes are applied. When monetary purchasing power is so abundant that both business buyers and consumers are bidding against each other to create price inflation, taxation that creates a large budget surplus and permits substantial debt retirement is one of the most important and sure-acting stabilization devices available.

A third line of built-in stabilization comes from unemployment compensation that impounds purchasing power at the maximum rate when it tends to outrun the supply of goods and releases it when supplies are in excess of market demand. It is estimated that unemployment benefits might amount to about 25% of the lost purchasing power due to unemployment in the covered industries.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Air Commuting, Inc., White Plains, N. Y.
June 17 (letter of notification) 1,060 shares of capital stock (no par value), of which 600 shares will be sold publicly at $100 per share. **Underwriter** — Burnham & Co. **Proceeds**—To be used to engage in limited helicopter operation over routes which the company is presently certificated to fly or in limited helicopter commercial work. Postponed indefinitely.

• Alaska Industrial Corp., New York
Oct. 8 (letter of notification) 18,075 shares of common stock (no par). **Price**—$2 per share. To make surveys and preliminary studies with respect to timber and wood pulp operations. Company will sell stock direct to a group of 25 persons purchasing same for investment and not distribution.

American Steel & Pump Corp. (10/20-21)
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital.

Armstrong Rubber Co., West Haven, Conn.
June 30 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock, ($50 par) and 2,000 shares of class A common stock. To be sold at $44 and $11.75, respectively. This stock is being sold by James A. Walsh, President of the Company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

Armstrong Rubber Co., West Haven, Conn.
July 8 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock ($50 par). To be sold at $44 each for Frederick Machlin, Executive Vice-President and Secretary of the company. **Underwriter**—F. Eberstadt & Co., Inc., New York.

• Aztec Mining Co. of Nevada, Reno, Nev.
Oct. 6 (leter of notification) 100,000 shares of common non-assessable stock. **Price**—25 cents per share. No underwriter. For mill tests of ore already mined on issuer's property and for working capital.

Berry Motors Inc., Corinth, Miss.
Sept. 20 (letter of notification) 25,000 shares ($10 par) 5% cumulative class B preferred stock. **Underwriter**—Gordon Meeks & Co. For working capital.

Black Hills Power & Light Co., Rapid City, S. Dak.
Oct. 5 filed 33,730 shares ($1 par) common stock and 5,000 shares of ($100 par) cumulative preferred stock. **Underwriter**—Dillon, Read & Co. Inc. **Offering**—Common stock will be offered for subscription by common stockholders and the preferred to the public. **Proceeds**—For construction.

• Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

• Britton Oil Co., Inc., Ada, Okla.
Oct. 4 (letter of notification) 300,000 shares (1c par) common. **Price**—$1 per share. **Underwriter**—S. B. Cantor Co. For general expenses.

Brockton (Mass.) Edison Co.
Sept. 3 filed $4,000,000 first mortgage and collateral trust bonds, due 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co.; Harriman Ripley & Co. **Proceeds**—To pay $2,625,000 of promissory notes and to finance additional costs and corporate needs. Bids expected to be received about Oct. 19.

Bucyrus-Erie Co., South Milwaukee, Wis.
Sept. 29 filed 320,000 shares ($5 par) common stock. **Underwriter**—Harris, Hall & Co. (Inc.) **Offering**—To be offered for subscription by common stockholders. **Proceeds**—To pay costs of expansion program.

• California Water Service Co.
Oct. 8 filed $1,500,000 first mortgage 3¼% bonds, series C, due Nov. 1, 1975. **Underwriters**—Names to be determined through competitive bidding: Blyth & Co., Inc., and Dean Walter & Co. (jointly); Union Securities Corp.; Halsey, Stuart & Co. Inc. **Proceeds**—For repayment of bank loans and to restore working capital for outlays put in property additions.

• California Water & Telephone Co.
Oct. 6 filed 40,000 shares ($25 par) cumulative preferred stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To help pay for costs of extensions and improvements during this year and next.

California Water & Telephone Co.
Sept. 9 (letter of notification) 12,800 shares ($25 par) common stock. **Price**—$23 per share. Stockholders of record Sept. 10 are given the right to subscribe to the new shares in ratio of one new for each 10 held. Rights expire Oct. 18. Western Utilities Corp., owner of over ⅔rds of stock, will exercise its rights. No underwriter. For construction.

Capitol Records, Inc., Hollywood, Calif.
Sept. 29 (letter of notification) 11,390 shares of common stock (25¢ par). To be offered by George G. DeSylva, who holds a promissory note of the company amounting to $140,000. The note is convertible into the company's common stock at the rate of 134 shares for each $1,000 principal amount of the note. The stock will be sold to the public at $8.75 per share. **Underwriter**—William R. Staats Co.

Central Arizona Light & Power Co. (10/20)
Sept. 28 filed 300,000 shares (no par) common stock. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Proceeds**—To be applied on currently outstanding construction loans of $3,000,000 obtained during 1948 from Mellon National Bank & Trust Co. of Pittsburgh.

Central Electric & Gas Co. (10/15)
Sept. 9 filed 30,000 shares of $2.50 cumulative convertible preferred stock (stated value $50 per share). **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Proceeds**—May be used in making additional investments in common stock equities of its telephone subsidiaries and may be applied in part for its own construction program or for other general corporate purposes.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. Underwriting—Company called for competitive bids Dec. 8, **1947 and only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 under**writing commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—for construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co.; Dewar, Robertson & Pancoast negotiated a purchase contract in April, 1948, but the SEC on July 27, 1948, concluded that financing by the proposed preferred stock issue is not necessary.

• Central Printers, Inc., Sioux Falls, S. D.
Oct. 8 (letter of notification) 990 shares of class A common stock (par $100); 10,000 shares of class B common stock (par $10) and 1,000 shares of class C common stock (par $1). Price, par for each class. No underwriter. To purchase land, buildings, equipment and services needed to carry on printing.

• Central States Cooperatives, Inc., Chicago, Ill.
Oct. 8 (letter of notification) 41½ shares of preferred stock (par $100). Price, par. No underwriter. To retire outstanding trade notes.

Century Electric Co., St. Louis, Mo.
August 23 (letter of notification) 25,000 shares ($10 par) common stock. **Offering**—Common stockholders of record Sept. 7 will be given right to subscribe on or before Oct. 29 on basis of one new share for each 21 shares held at $12 per share. No underwriter. To increase working capital.

Chieftain Products, Inc., Brooklyn
Aug. 3 (letter of notification) 25,000 shares of common stock and 20,000 warrants. **Offering**—10,000 shares and 15,000 warrants to be offered in units (one common share and 1½ warrants) at $2.75 per unit, the balance of 15,000 shares being reserved for exercise of 15,000 warrants, purchasers of which will have the right for four years to purchase shares at $2.75 per share. General corporate purposes. **Underwriter**—Dunne & Co., New York.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Colonial Candy Corp., Morgantown, W. Va.
Sept. 17 (letter of notification) 100,000 shares ($1 par) common stock. **Price** — $2 per share. **Underwriter**—Grubbs, Scott & Co., Inc. To pay past expenses and for new equipment.

Columbia Gas System, Inc., New York
Sept. 16 filed 1,223,000 shares (no par) common stock. **Offering**—Offered for subscription by holders of 12,229,874 outstanding shares of common stock of record Oct. 5 in ratio of one new share for each 10 shares held. Rights expire Oct. 28. **Price**—$10 per share. Underwriting, none, but The First Boston Corp. has been appointed agent to solicit subscriptions. **Proceeds**—For general funds to be used for construction.

Columbia (Pa.) Telephone Co.
Sept. 21 (letter of notification) 3,000 shares of common stock (par $25). **Price**—$40 per share. Stock is being offered to stockholders of record Sept. 17 on basis of three new shares for each 10 shares held. Rights expire Nov. 1. Three of the officers have agreed with company to purchase ⅓rd each of unsubscribed shares at $40 per share. Conversion to dial telephones, expansion, etc.

Crosbie Co. of Washington, Inc.
Sept. 7 (letter of notification) 50,000 shares of class A common stock ($1 par), 25,000 shares of class B common stock (10¢ par). **Underwriter** — James T. DeWitt Co., New York and Washington. To be offered in units of two shares of class A and one share of class B at $5 per unit. To reduce or pay in full present borrowings from the Manufacturers Credit Corp., to reduce the present current liability position and to provide additional working capital.

• Deshler (Neb.) Broom Factory
Oct 5, (letter of notification) 2,000 shares of 5% preferred stock and 1,000 shares of common stock. **Price**—$100 per share for each class. No underwriter. To build buildings destroyed by fire, to replace equipment destroyed by fire and to purchase new equipment.

Douglass Manufacturing Co., Inc., Portland, Maine
Aug. 16 (letter of notification) $100,000 of 5-year 5% convertible debentures, with non-detachable stock purchase warrants; 10,000 shares of common stock ($1 par) reserved for conversion of debentures, and 10,000 shares ($1 par) common stock reserved for exercise of warrants. **Underwriter**—Minot, Kendall & Co. For working capital.

Dynacycle Manufacturing Co., St. Louis, Mo.
Sept. 3 filed 100,000 shares (80c par) common stock. **Underwriter**—White & Co., St. Louis. **Price**—$5 per share. Proceeds, plus an additional amount which may be obtained from the sale of franchises (estimated at $100,000), will be added to company's general funds. About $230,000 would be used to purchase equipment and $185,000 for working capital.

Employees Credit Corp., New York
Sept. 24 filed 20,000 shares of $1.50 prior convertible preferred stock, series A (no par) and 20,000 shares of Class A common stock ($2 par). **Underwriter**—E. H. Rollins & Sons, Inc. **Proceeds**—To retire 2½% term loan, amounting to $225,000, held by Marine Midland Trust Co., New York, and balance for general funds.

Family Finance Corp.
Sep. 2 filed 25,000 shares of 4½% cumulative preference stock, series A (par $50) (convertible to and including Aug. 1, 1956) and 97,580 shares ($1 par) common stock to be reserved for conversion of the preferred stock. **Underwriter**—E. H. Rollins & Son, Inc. **Proceeds**—To reduce outstanding bank loans and commercial paper. Temporarily postponed.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders in ratio of one additional shares for each four shares held. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes. Offering postponed.

First Guardian Securities Corp., New York City
June 4 filed 36,000 shares of 5% cumulative convertible preferred stock ($25 par) and 172,000 shares ($1 par) common stock. (72,000 shares of common to be reserved for conversion of the preferred.) **Underwriter**—None. **Price**—$25 a share for the preferred and $10 for the common.

• Florida Telephone Corp., Ocala, Fla.
Oct 5 (letter of notification) 28,500 shares of common stock (par $10). **Underwriter**—Florida Securities Corp., St. Petersburg, Fla. **Price**—$10 per share. For an expansion and modernization program.

Gauley Mountain Coal Co., New York
Aug. 13 (letter of notification) 6,093 shares of capital stock (par $10). Price, par. Stockholders of record Sept. 1 will be given right to subscribe at rate of one

NEW ISSUE CALENDAR

October 14, 1948
Illinois Central RR.________Equip. Trust Ctfs.
Virginian Ry., 11 a.m. (EST)_______________Bonds

October 15, 1948
Central Electric & Gas Co.______________Preferred
Interstate Power Co.____________________Bonds

October 18, 1948
Public Service Co. of N. H., Noon (EST)____Bonds
Youse (E. S.) Co., Inc.________________Common

October 19, 1948
Michigan Bell Telephone Co.,
11:30 a.m. (EST)___________________Debentures
Minneapolis & St. Louis Ry.______________Common
Public Service Co. of Colorado,
11 a.m. (EST)____________Bonds and Preferred

October 20, 1948
American Steel & Pump Corp.______Class A Stock
Central Arizona Light & Power Co.______Common
Oklahoma Gas & Electric Co., Noon (EST)___Stock
United New Jersey RR. & Canal Co.,
Noon (EST) __________________________Bonds

October 21, 1948
Pennsylvania Power & Light Co.________Preferred

October 26, 1948
New Orleans Public Service, Inc.___________Bonds

October 27, 1948
Chesapeake & Ohio Ry.__________Equip. Trust Ctfs.

November 22, 1948
Public Service Electric & Gas Co.______Debentures

new share for each five shares held. Rights expire Oct. 15. **Underwriting**—None. General improvements, etc.

● **Gauley Mountain Coal Co., New York**
Oct. 8 (letter of notification) 2,000 shares of capital stock (par $10). **Price**—Market (approximately $20.50 per share). **Proceeds**—To selling stockholders. **Underwriters**—A. M. Kidder & Co. and Cohu & Co., New York.

● **General Engineering & Manufacturing Co., St. Louis, Mo.**
Oct. 8 (letter of notification) 295,000 shares ($1 par) common stock to be offered at par and warrants authorizing the purchase of 45,000 shares of common stock. **Underwriters**—Dempsey-Tegeler & Co. and J. W. Brady & Co., St. Louis, Mo. **Proceeds**—For general corporate purposes.

Goldsmith Bros. Smelting & Refining Co.
Sept. 27 filed 100,000 shares ($3.50 par) common stock, of which 54,000 shares will be sold by the company and 46,000 by selling stockholders. **Underwriter**—A. C. Allyn & Co., Inc. Price by amendment. **Proceeds**—Company's proceeds for working capital.

● **Grand Stores Co., San Diego, Calif.**
Oct. 8 (letter of notification) 8,000 shares of ($1 par) common stock, to be sold by Harlan B. Eldred. No underwriting.

● **Hastings (Mich.) Manufacturing Co.**
Oct. 4 (letter of notification) 1,000 shares ($2 par) common stock, on behalf of C. W. Dolan. **Underwriter**—First of Michigan Corp., Battle Creek, Mich. **Price**—$9.75 per share.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

Hooker Electrochemical Co., Niagara Falls, N. Y.
Oct. 6 filed 50,262 shares of cumulative second preferred, series A (convertible into common stock before Dec. 1, 1958). **Underwriter**—Smith, Barney & Co. **Offering**—To be offered for subscription by common holders on a basis of one new share for each 16 shares of common held. **Proceeds**—For capital additions to plants and facilities and to provide for changes in equipment and processes.

Hygenic Service Co., Boulder, Colo.
August 16 (letter of notification) $50,000 first mortgage 5% 20-year (closed) bond issue. **Underwriter**—E. W. Hughes & Co. For new plant construction and improvement of existing plant.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
May 17 filed 100,000 shares of 4% cumulative preferred stock ($100 par) and 500,000 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$300 per unit, consisting of two shares of preferred and 10 shares of common stock. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

Interstate Power Co. (10/15)
Sept. 10 filed $5,000,000 first mortgage bonds, due 1978. **Underwriter**—Halsey, Stuart & Co. Inc. on Oct. 13 bid 100 for a 4½% coupon. Offering expected Oct. 15 at 103. **Proceeds**—Of the proceeds, $2,400,000 is to be applied to prepayment of promissory notes, $1,400,000 will pay in full the $724,446 balance on a lease and purchase agreement and for property additions; and $1,200,000 will be deposited with corporate trustee under bond indenture, available for withdrawal against property additions.

● **Investors Syndicate of America, Inc.**
Oct. 1 filed instalment investment certificates plus optional insurance policy issued by unaffiliated insurance company, series 10, to be issued in minimum denominations of $2,000 face amount, $1,000,000; series 15 to be issued in minimum denominations of $2,000 face amount, $47,000,000; series 20 to be issued in minimum denominations of $3,000 face amount, $88,000,000; series 15 and 20 provide that instalment payments thereon may be continued after maturities of additional periods of four and 10 years, respectively; also filed were instalment investment certificates series 12 to be issued in minimum denominations of $2,000 face amount, $1,000,000.

Iowa Public Service Co., Sioux City, Iowa
Sept. 24 filed $3,000,000 first mortgage bonds, due 1978, and 109,866 shares ($15 par) common stock. **Underwriters**—Bonds will be offered under competitive bidding. Probable bidders: Glore, Forgan & Co.; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; White, Weld & Co.; A. C. Allyn & Co.; Harriman Ripley & Co.; Salomon Bros. & Hutzler; Otis & Co.; The First Boston Corp. **Offering**—The stock will be offered for subscription by common stockholders of record Nov. 4 at rate of one-sixth of a new share for each share held. Price of stock will be no less than $15. Sioux City Gas & Electric Co., owner of 61.2% of the stock, will purchase its pro rata share of the new stock and take all unsubscribed shares. **Proceeds**—For construction program.

● **Kauai Engineering Works, Ltd., Lihue, Hauai, Hawaii**
Oct. 8 (letter of notification) 300,000 shares of nonassessable ($1 par) common stock. Price, par. No underwriting. For construction of tuna cannery and partial financing of three fishing boats.

McCormick & Co., Inc., Baltimore, Md.
Sept. 30 (letter of notification) 1,000 shares (no par) common stock and 2,500 shares of 5% cumulative preferred stock (par $100). **Price**—Common $50 per share, preferred $100 per share. No underwriter. For working capital.

Michigan Bell Telephone Co. (10/19)
Sept. 17 filed $75,000,000 40-year debentures. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds** — To repay advances from American Telephone & Telegraph Co. (parent), which are expected to be about $81,500,000 by Oct. 19. These advances were used for general corporate purposes, including construction, additions and improvements. **Bids**—Bids for purchase of debentures will be received up to 11:30 a.m. (EST) Oct. 19 at Room 2315, 195 Broadway, New York.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

New Orleans Public Service Inc. (10/26)
Sept. 23 filed $10,000,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Lehman Brothers; Harriman Ripley & Co. **Proceeds**—Will be used for construction and other corporate expenses. Bids expepcted about Oct. 26.

Official Films, Inc., New York
July 16 (letter of notification) 49,000 shares 35¢ cumulative preferred stock (par $5) and 49,000 shares of common stock (par 10¢). **Price**—$6 per unit, consisting of one share of each. Working capital and other general corporate purposes. **Underwriter** — Aetna Securities Corp., New York.

Oklahoma Gas & Electric Co. (10/20)
Sept. 13 filed 250,000 shares ($20 par) common stock. **Offering**—Standard Gas & Electric Co. which owns 750,000 shares of company's common will receive the proceeds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane; Blyth & Co. and Lehman Brothers; Smith Barney & Co. and Harriman Ripley & Co. (Jointly); Otis & Co. **Bids**—Bids for purchase of stock will be received up to noon Oct. 20 by Standard Gas & Electric Co., Room 1338, 15 Broad Street, New York.

Old North State Insurance Co.
June 24 filed 100,000 shares of capital stock (par $5). **Price**—$15 per share. **Underwriter**—First Securities Corp., Durham, N. C. **Offering**—26,667 shares will be initially offered on a "when, as and if issued" basis; 13,333 shares will be purchased by underwriter for public or private offerings; and the remaining 40,000 shares will be publicly offered on a "best efforts basis" on completion of the subscription of the first 40,000 shares and the company's receipt of a license to do business in North Carolina. **Proceeds**—For general business purposes.

O'Sullivan Rubber Corp., Winchester, Va.
Sept. 27 filed 325,000 shares ($1 par) common stock. **Underwriters**—There are no underwriters but C. F. Cassell & Co., Inc., Charlottesville, Va., and Gearhart & Co., Inc., New York, will solicit subscriptions from common stockholders. **Offering**—Of the total 278,318 shares will be offered to common stockholders at rate of two new shares for each one held on Oct. 7. Price, by amendment. **Proceeds**—To defray cost of new plastic plant, restore working capital and provide new working capital.

Otter Tail Power Co., Fergus Falls, Minn.
Sept. 27 filed 141,490 shares ($5 par) common stock. **Underwriting**—Names by amendment (probably Glore, Forgan & Co. and Kalman & Co.). **Proceeds**—For retirement of $2,500,000 of loans owing to the First National Bank of Minneapolis and for betterment of facilities.

● **Pacific Outdoor Advertising Co., Los Angeles, California**
Oct. 7 (letter of notification) 2,000 shares (no par) common stock. **Price**—$50 per share. No underwriter. To retire the outstanding debenture bonds, to pay the balance of the present bank loan and for general corporate purposes.

Pennsylvania Power & Light Co. (10/21)
Sept. 28 filed 63,000 shares ($100 par) preferred stock. **Underwriters**—Drexel & Co., Philadelphia and The First Boston Corp., New York. Price and dividend rate will be filed by amendment. **Proceeds** — To be applied toward $100,000,000 construction program.

Peoples Gas Light & Coke Co.
Sept. 24 filed $16,400,000 3% convertible debentures, due Dec. 1, 1963. **Underwriters**—Competitive bidding will determine the names of the underwriters who will purchase unsubscribed debentures. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. **Offering**—To be first offered for subscription by stockholders in ratio of $100 of debentures for each four shares held of record Oct. 22. Rights will expire Dec. 1. Price, par (flat). **Proceeds**—For construction and for the purchase of additional capital stock of certain natural gas companies.

● **Plywood Inc., Detroit, Mich.**
Oct. 8 filed $500,000 of 5% sinking fund debentures, due Aug. 1, 1967, with detachable warrants to purchase 50,000 shares of common stock. **Underwriter**—P. W. Brooks & Co., Inc. **Proceeds**—For additional working capital.

Public Service Co. of Colorado (10/19)
Sept. 17, filed $10,000,000 first mortgage bonds, due 1978, and 66,000 shares of cumulative convertible preferred stock ($100 par). **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. (bonds only); Glore, Forgan & Co. and W. C. Langley & Co. (jointly on both); Harris, Hall & Co. (Inc.) (both); Lehman Brothers (bonds only); Kidder, Peabody & Co. (bonds only); Blyth & Co., Inc. and Smith Barney & Co. (stock only); Eastman, Dillon & Co. (stock only). **Proceeds**—To provide part of the costs of construction. **Bids**—Bids for purchase of securities will be received at office of Guaranty Trust Co., 140 Broadway, New York, up to 11 a.m. (EST) Oct. 19.

Public Service Co. of New Hampshire (10/18)
Sept. 9 filed $7,000,000 first mortgage bonds, series D, due 1978. **Underwriters** — Names will be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly). **Proceeds**—Of the proceeds, $3,600,000 will be applied to the reduction of outstanding short-term bank borrowings. $3,400,000 will be deposited with the indenture trustee, available for withdrawal against property additions. **Bids**—Bids for purchase of bonds will be received at company's office, 1087 Elm Street, Manchester, N. H., up to noon (EST) Oct. 18.

Quebec Oil Development Ltd., Montreal, Can.
Aug. 4 filed 2,000,000 shares of capital stock, ($1 par Canadian funds). **Underwriter**—Hiscox, Van Meter & Co., Inc. Price, $1 per share (United States funds). For each 20,000 shares of stock sold, the company will deliver to the underwriter stock purchase warrants entitling the holder to purchase, on or before Sept. 1, 1950, 1,000 shares of capital stock of the company at $1.50 per share. **Proceeds**—For drilling operations.

● **San Diego Gas & Electric Co.**
Oct. 8 filed 350,000 shares ($10 par) common stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To retire $3,200,000 bank-loan notes and to reimburse company for expenditures made before Sept. 2 for acquisition of property and for property additions and improvements.

● **Schrader (H. J.) & Co., South Bend, Ind.**
Oct. 5 (letter of notification) 1,000 shares of 6% cumulative preferred stock (par $100) and 37,500 shares of class B (no par) common. **Underwriter**—Harrison & Austin, Inc., South Bend, Ind. **Price**—Preferred par; common 25c per share. For working capital and to carry conditional sales contracts.

Shoe Corp. of America, Columbus, O.
June 28 filed 25,000 shares of cumulative preferred stock (no par), with class A common share purchase warrants attached and 25,000 shares of common stock reserved for warrants. **Underwriter**—Lee Higginson Corp. **Proceeds**—For general corporate purposes. Indefinite.

Sightmaster Corp., New Rochelle, N. Y.
Sept. 24 (letter of notification) 99,000 shares of common stock (par 25c) and options for the purchase of 25,000 shares (owned by Michael Kaplan) at end of 13 months after public offering of 99,000 shares. **Underwriter**—Willis E. Burnside & Co. **Price**—$3 per share. General corporate purposes.

Sioux City (Iowa) Gas & Electric Co.
Sept. 21 filed 71,362 shares of common stock (par $12.50). **Underwriting**—None. **Offering** — Holders of common stock of record Oct. 15 will be entitled to subscribe to the new shares in the ratio of one-fifth of a share of additional common for each share held. **Proceeds** — To provide a portion of the sums required to make a further investment in the common stock of Iowa Public Service Co. and to pay in full or reduce a $1,800,000 note to Bankers Trust Co.

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● **Southern Colorado Power Co., Pueblo, Colo.**
Oct. 8 (letter of notification) 34,067 shares of common stock (no par). **Offering**—To be offered to holders of outstanding 476,939 shares of common stock on basis of one share of new common stock for each 14 shares of common stock held. **Price**—$8.50 per share. **Underwriters**—Boettcher & Co., Bosworth, Sullivan & Co., Denver, Colo., and Hutchinson & Co., Pueblo, Colo. For company's construction program.

● **Southern Oil Corp., Jackson, Miss.**
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Underwriter**—J. J. Le Done Co., New York. **Proceeds**—For working capital and general corporate purposes.

● **Southern Oxygen Co., Inc., Bladensburg, Md.**
Oct. 7 (letter of notification) 9,612 shares ($25 par) common stock. Price, at par. **Underwriter**—Johnston, Lemon & Co., Washington, D. C. For additional working capital for the construction and completion of the company's new plant and for other corporate purposes.

Southwestern Associated Telephone Co.
Aug. 24 filed 22,000 shares of $2.60 cumulative (no par) preferred stock. **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—To pay, in part, bank loans used for construction purposes. Indefinite.

Squankum Feed Supply Co., Inc., Farmingdale, New Jersey
Aug. 4 (letter of notification) $150,000 20-year 5½% sinking fund debentures. **Price**—102. Working capital, etc. **Underwriter**—Fidelity Securities & Investment Co., Inc., Asbury Park, N. J.

Standard Cable Corp., Westerly, R. I.
Sept. 17 (letter of notification) 94,000 shares (25¢ par) capital stock. **Price**—$1 per share. **Underwriter**—Sterling, Grace & Co. To move the plant and purchase additional machinery.

Tide Water Power Co., Wilmington, N. C.
July 30 filed 80,000 shares (no par) common stock. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. Price by amendment. **Proceeds**—For construction Indefinitely postponed.

Union Plaster Co., Los Angeles, Calif.
Sept. 22 (letter of notification) 25,000 shares of 60-cent cumulative preferred stock, series A ($10 par) and 100,000 shares (85¢ par) common stock, issuable upon conversion of the preferred stock. Preferred will be offered at $12 per share. Each preferred share is to be convertible into four common shares. **Underwriter**—Bourbeau & Douglass, Los Angeles. For construction of a gypsum wallboard and lath plant in Phoenix, Ariz.

United Casualty Co., Cedar Rapids
August 18 (letter of notification) 10,000 shares of convertible cumulative preferred stock ($10 par), with privilege of conversion at any time before redemption on a share-for-share basis for common stock ($10 par). To be offered at $25 per share without underwriting. To increase capital and surplus.

United Utilities & Specialty Corp.
July 29 filed 41,000 shares of 5% cumulative convertible preferred stock ($10 par). **Underwriters**—George R. Cooley & Co., Inc. Herrick, Waddell & Reed, Inc., have withdrawn as underwriters. **Proceeds**—For general corporate purposes.

Upper Peninsular Power Co.
Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Western Air Lines, Inc., Los Angeles, Calif.
Sept. 29 filed 215,597 shares of capital stock (par $1). **Offering**—William A. Coulter, former director, is offering the stock on the New York Stock Exchange without underwriting.

● **Western Good Roads Service Co., Lincoln, Neb.**
Oct. 4 (letter of notification) 190.4 shares ($100 par) common stock, to be sold at $23.55 per share and 112 shares ($100 par) preferred stock, to be sold at $40 per share. No underwriter. For working capital.

Wiegand (Edwin L.) Co., Pittsburgh
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering indefinitely postponed.

● **WMFI Broadcasting Co., Memphis, Tenn.**
Oct. 6 (letter of notification) 6,000 shares of Class "A" common voting stock ($2 par); and 100,000 shares of class "B" common voting stock ($2 par). No underwriter. To finance the construction and operation of a frequency modulation radio station to be located at Memphis; and for construction of television station.

Yankee Fiber Tile Mfg. Co., Detroit, Mich.
Sept. 15 filed 100,000 shares ($1 par) common stock, of which 20,000 will be sold by company and 80,000 by four stockholders. **Price** — $5 per share. **Underwriter** — Baker, Simonds & Co. **Proceeds** — To replace part of working capital for past expenses.

Youse (E. S.) Co., Inc. (10/18-22)
Sept. 27 filed 57,000 shares ($2 par) common stock, of which 12,000 are being offered by the company and 45,000 by three stockholders. **Underwriter** — Suplee, Yeatman & Co., Inc., Philadelphia. **Price**—$7.62½ each. **Proceeds**—From company's offering will be used to pay for opening a new branch store in Lancaster, Pa.

Prospective Offerings

● **Central Maine Power Co.**
Oct. 13 company asked the SEC for authority to sell approximately 300,000 shares of common stock to net approximately $5,000,000. Stock will first be offered to present holders of preferred and common stock. Unsubscribed shares then will be sold publicly. Coffin & Burr, Inc., of Boston, Mass., is listed as underwriter. Proceeds will be used to reduce outstanding bank loans incurred to pay for new construction.

● **Chesapeake & Ohio Ry. (10/27)**
Oct. 12 company asked the ICC for authority to issue $4,200,000 equipment trust certificates. The certificates will be put up for competitive sale on Oct. 27. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Chicago St. Paul Minneapolis & Omaha Ry.**
Oct. 11 company asked ICC permission to issue $2,100,000 equipment-trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Dayton Power & Light Co.**
Oct. 12 reported company has plans for sale of $15,000,000 in new bonds. The offering, which is designed to provide the company with funds required for construction, probably will be ready for the market about the end of November, it is said. Probable bidders: Halsey, Stuart & Co. inc.; Morgan Stanley & Co.; Blyth & Co., Inc.

Great Northern Ry. (10/14)
The company has issued invitations for bids to be received Oct. 14 for $12,720,000 equipment trust certificates, to mature in 30 equal semi-annual instalments beginning March 1, 1949, and ending on Sept. 1, 1968. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); Kidder, Peabody & Co.

Illinois Central RR. (10/14)
The company will receive bids Oct. 14 for the sale of $5,500,000 equipment trust certificates, series AA, to be dated Oct. 1, 1948 and to mature semi-annually from Feb. 1, 1949, to Aug. 1, 1957. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Rippley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Kidder, Peabody & Co.

● **Michigan Bakeries, Inc., Detroit**
Oct. 11 reported company plans public offering of 67,500 shares of 5½% cumulative convertible preferred stock (par $20), with First of Michigan Corp. and S. R. Livingston & Co. as underwriters.

● **Minneapolis & St. Louis Ry. (10/19)**
The U. S. Treasury Department will sell 13,676 shares (no par) common stock of the company, acquired in settlement of loans made to the road under the Transportation Act of 1920. The Treasury would keep all dividends paid to date, including a dividend of 25 cents a share payable Oct. 15 to holders of record Oct. 11.
Offers to purchase the stock will be received by the fiscal assistant secretary of the Treasury Department at Washington and will be opened at 10 a.m. (EST) Oct. 19. The Treasury wants to sell this stock in one block and will not consider any offers covering less than the total 13,676 shares.

● **Minnesota Power & Light Co.**
Oct. 12 reported company plans the sale late in November of some $6,500,000 bonds. Probable bidders: Shields & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.

● **Potomac Edison Co.**
Oct. 11 reported company contemplates sale before year's end of $5,500,000 bonds and 30,000 shares of preferred stock. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); W. C. Langley & Co. and The First Boston Corp. (jointly); Harriman Ripley & Co., Blyth & Co., Inc., and Union Securities Corp. (jointly on stock); Shields & Co.; Equitable Securities Corp.; Lehman Brothers; Kidder, Peabody & Co. and Alex. Brown & Son (jointly).

● **Public Service Electric & Gas Co. (11/22)**
Sept. 24 company announced that it will soon file a registration statement with the SEC and seek approval of Board of Public Utility Commissioners of New Jersey for authority to sell $50,000,000 unsecured debentures through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Lehman Brothers (jointly). Bids expected to be received Nov. 22.

● **Shellmar Products Corp., Mt. Vernon, O.**
Oct. 28 stockholders will vote on creating a new class of preferred stock, and also increasing the common. If amendment is adopted, company will authorize 200,000 shares of second preferred ($50 par) and increase authorized common to 1,000,000 shares ($6 par). Management has no plans for issuance of either the second preferred or common at present.

● **Trans-Continental Gas Pine Line**
Financing of the 1,840-mile pipeline by which company intends to transmit natural gas from Texas to the New York Metropolitan Area will require the issuance of bonds and stocks totaling $191,500,000, it is stated. Company's present plans, it is said, call for registering with the SEC by Oct. 19 issues of $26,500,000 of preferred stock and $22,000,000 of common stock. Bonds totaling $143,000,000 are to be placed privately with institutional investors. The common stock is slated to be taken up privately by stockholders, but the preferred, carrying common stock warrants, is to be offered to the public probably by mid-November. White, Weld & Co. and Stone & Webster Securities Corp. are managing the transaction, according to reports.

United New Jersey RR. & Canal Co. (10/20)
The Pennsylvania RR. will receive bids up to noon (EST) Oct. 20 at Room 1811 Broad Street Station, Philadelphia, for the sale of $6,487,000 general mortgage bonds of the United New Jersey RR. & Canal Co. Bonds will be dated Oct. 1, 1948 and mature Oct. 1, 1973. Probable bidders include: Halsey, Stuart & Co. Inc.; Harriman Rippley & Co.; Shields & Co; Kidder, Peabody & Co. and White, Weld & Co. (jointly).

Virginian Railway (10/14)
The company will receive bids up to 11 a.m. Oct. 14 for the sale of $9,500,000 first lien and refunding mortgage bonds, series C, dated Oct. 1, 1948, due Oct. 1, 1973. Proceeds will be used to pay off short-term bank notes and to restore working capital. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Shields & Co.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly).

Our Reporter's Report

The new issue market came almost to a complete halt this week as the Columbus Day holiday cut pretty much into the middle of things. The first half of the period was bare of anything in the way of new underwriting except yesterday's sale of $5,000,000 of Interstate Power Co. mortgage bonds and $1,500,000 equipment trusts of Central Railroad of New Jersey.

As a matter of fact, even with the several small corporate undertakings on schedule for today the week appeared likely to do down as one of the least productive of the year.

Today, bankers were scheduled to bid for an offering of $9,500,000 of mortgage bonds of the Virginian Railway, with this issue sandwiched in between two new offerings of equipment trust certificates.

Largest of the latter undertakings, that of the Great Northern Railway, involves $17,720,000 of certificates and, as is more or less usual in flotations of this kind, was expected to bring out some likely bidding.

Illinois Central Railroad also was slated to receive bids today for $5,500,000 of its equipment trusts with the size of this project naturally auguring for keen competition.

Underwriting bankers, for the moment, are not particularly jubilant over the immediate outlook, what with the situation in the basic government market still more or less in a state of "flux."

War of Nerves

The Federal Reserve Board appears more or less willing to embark upon something of a "war of nerves" as a part of its program for beating back the drive of inflation.

Not satisfied, it seems, with the results of its recent markup in member bank reserve requirements which, for the moment at least, has forced the New York banks into a deficit position in reserves, it has approached the Treasury, according to reports, for a new markup in short-term interest rates.

The Treasury, however, seems reluctant to go along with the suggestion that it let bill and certificate rates move up a bit farther, presumably being more of a mind to let the government market settle down from the effects of heavy bank "unloading" made necessary by the hike in required reserves.

Public Service Electric & Gas

Bankers who went through the procedure on two previous occasions of entering bids for securities put up for sale by Public Service Gas & Electric Co., only to have their tenders set aside without consideration, will at least have ample time to weigh things in connection with that company's latest proposal.

The big New Jersey utility announced a week ago, plans to seek bids for an issue of $50,000,000 of 15-year debentures. It previously had projected the financing on a basis to include bonds and preferred stock.

Underwriters will have from now until Nov. 22 next, a period of some five weeks to look the situation over and decide on their ideas as to pricing of the new proposal.

Oklahoma Gas & Electric

Decision of the Standard Gas & Electric Co. to revise the proportions of its proposed sale of Oklahoma Gas & Electric Co. common stock and to forego negotiated sale removed the necessity for an SEC ruling on the matter and ended the hearings.

It now appears that three syndicates, at least, will be in the running for the block of 250,000 shares the parent company now proposes to sell. And there are indications that the call for bids probably will set a date about a fortnight hence.

It had been the original intention to market 400,000 shares of the stock, but the selling company explains that the current revision is due to market conditions which it believes warrants the cut in the block to be sold.

Business—Today and Tomorrow

(Continued from page 39)

apparently "cannot take it." They seek to maintain prices instead of volume of production, to protect high profit margins through production cutbacks. Agriculture, since it finds it hard to cut production, seeks to have government dispose of the surplus regardless of whether prices and scale of production in the several lines are soundly adjusted. Of course, readjustments of relative volumes in the different branches of industry must be made as we come to the end of the reconversion period. But if a general restriction movement is continued for any considerable time, it would start progressive disemployment in which each company's effort to protect itself by curtailment of operations impairs some other company's market till all become involved in spreading recession.

It should be a cause of reassurance that this process of catching-up and of adjustment of prices, inventories and production in many separate lines has been going forward for some time within a generally strong market situation. Since we have reasonable assurance that that strong general situation will be maintained for several years ahead, there is ground to hope that we may complete this rolling adjustment of the whole economy from war disturbance and postwar inflation to one of stabilized prosperity without the drastic and cumulatively destructive readjustments of a real depression.

Here there is particular application to the traction industry. Yours is a business in which you are required to go on serving the public even at sacrifice of your own profit position. This same requirement of service is not imposed on many other industries. They are permitted to retire from activity if they find this course to their individual advantage even if in so doing they bring harm to the economy as a whole. They are prone to say that self-preservation is the first law of nature, and they cannot serve the economy by bankrupting themselves. But it is equally true that they can needlessly bankrupt each other by refusing to share the common burdens of venture capitalism and a profit-and-loss system.

In simplest terms the process of economic adjustment for sustained high production demands that suppliers continue to proffer their service to the market and accept its verdict rather than trying to force a settlement to their own liking through refusal to serve the market. Real economic efficiency comes through shifting resources to the lines preferred by the market, not through withholding their use. This is the rule under which the transit industry works as do other industries which have been classified as public utilities. But all industries are clothed with a public interest if we are to have a maximum production economy. This does not mean that they need to be subjected to public utility regulation or that that could be done without impairment of their efficiency. But it does mean that both management and workers in these industries must renounce the destructive methods of warfare and perfect methods of science or engineering in solving their problem of mutual adjustment.

Lead to Be Taken by Basic Industries

In this process the traction industry cannot take the lead—though it should follow in the procession and keep in step. The lead must be taken in the basic industries like coal, steel and petroleum. Then come the great processors like the chemical companies and metal fabricators. Next come light manufacturers, soft goods, food processors and distributors generally. Finally come the service trades and communication and transportation industries like yourselves. You can't materially affect the business tempo by any possible effort of your own. Your market is a derivative of how much activity other industries generate. But at the same time you as well as all the others must follow a forward program of high-level prosperity, not prepare for depression if periodic collapse or chronic stagnation are to be avoided.

Here I shall conclude on a note of optimism as to long-run possibilities as well as (what I said earlier) immediate prospects. If in fact as I still hope, we do "contain" the inflationary push which grew out of wartime financing and postwar domestic and international strains, business statesmanship and labor statesmanship and farm statesmanship have it in their power to build these favorable basic conditions into a well-sustained structure of activity and income. That would mean that you of the traction industry would be in the materials market and the equipment market and the labor market on an orderly and dependable basis. You could then be doing a straight engineering and managerial job, not trying to "play" these markets as in-and-out speculators. You would at the same time be reducing the hazards of other managements and helping them to stabilize their operations at full production and thereby add to the certainty of your own outlook. This is a constructive spiral and should displace the destructive spirals that lead to depressions.

If these conditions are in fact realized, you as traction men can feel reassured as to a good volume of bus and street car travel and dependable revenues. You can also gauge the scale on which facilities would need to be provided and to some extent the cost basis on which they could be provided. That price level will quite certainly be much above prewar and presumably somewhat below rather than above the present.

One thing that we have learned in this period is the previously unmeasured vigor or breadth of the buying market provided by a well-paid and fully employed people. One other factor that makes for confidence in your future planning is the strong push recently given to population growth, partly from a marriage rate accelerated by the war and partly from the postwar financial aids to veterans. High industrial wages contributed to family formation, but have now probably been overtaken by the high cost of living. I am sure it is superfluous in this gathering to say that the pattern of population growth in recent and near future years must be studied by transportation agencies with the utmost care both as to time and as to geographical dispersion. But certainly it is a long-range support factor.

Now I have dealt in some fashion with each of the questions "Professor" Hecker put to me. I have not given you firm answers or categorical predictions. But I trust that you agree with me that this is the only sound way to proceed. The important thing for each of us in his individual post of executive responsibility is to be concerned that he deal with the fast-changing complexities of a business world of private enterprise and democratic government within a frame of searching analytical method, not on the basis of inside tips, personal hunches or patterned analogies. While my remarks lean to the optimistic side, it is not a mere Pollyanna attitude, but reasoned faith in the ability of an increasingly literate business public to make private enterprise under representative government a more abundantly and more steadily productive system.

Scores Business for Failure to Combat "Unlimited" Goverment

(Continued from first page)

the opening paragraph of an address by William C. Mullendore, President, Southern California Edison Company, Los Angeles, at the 43rd annual meeting of the American Life Convention, in session at Chicago's Edgewater Beach Hotel on Oct. 6. The title of Mr. Mullendore's address was "Apathetic Trusteeship," and quite obviously he was addressing his remarks to a much wider group than the nearly 1,000 life insurance executives who composed his immediate audience.

"We of the business group," Mr. Mullendore declared, "while sporadically protesting inflationary fiscal policies, big government, high taxes and restrictive laws, have seemed to say that we are nevertheless prosperous, and in the majority, we now seem to acquiesce in the false labels of 'progress' and 'reform' which have been attached to laws, measures and policies which concentrate power in the Federal Government, and which will lead to further inflation, to collectivism, and eventually to widespread human suffering such as already has befallen other great peoples of the world from similar causes.

"Since V-J Day in particular, we have been living in a Fool's Paradise. Although increasingly threatened, internally and externally, by a foreign power, and although suffering from the worst inflation in our history, we have been living as though we were truly prosperous, while each day we have become entangled more completely in the tentacles of Big Government. Ignoring or minimizing the fact that inflation is the most important source of post-war full employment and increased production, the American people, as a whole, have rapidly increased their scale of living. That is, we have seemed to accept as a sound basis for future planning, an artificially-induced high rate of business activity which obviously is in part sustained by spending, pledging and re-pledging in the present our future hoped-for earnings, by government loans and subsidies and by government policies which force high prices and high wage scales. The failure of business spokesmen consistently to warn against the false and temporary nature of the forces contributing to this 'prosperity' has encouraged reliance upon false values and the growth of a controlled economy under a government of unlimited powers.

"In our amiability and complacence and negligence, we have slipped into a position from which it will be very difficult to extricate ourselves. As in the case of the individual who gets into debt by living beyond his means, it is much easier to embrace than to escape from these political measures which cater to human weaknesses and undermine the self-discipline upon which freedom depends. Government subsidies for individuals, groups and important segments of business rapidly ripen into vested interests, the attempted removal of which will jeopardize the life of any democratic government—a fact which many former members of the French Government will substantiate."

Mr. Mullendore went on to list, item by item, the various ways by which Federal powers have been consolidated during the past 15 years, pointing out that: "It is small wonder that, from a people enjoying the intoxication of inflation, there should be little popular demand for the realistic appraisal of the forces which have been thus built up through these years of socialistic political experimentation, of war and postwar boom. Yet I dare to suggest that it is high time that the responsible business leadership of America cease to rationalize hopes based on wishful thinking and began realistically to look ahead to the end of this road down which the American people are today so gaily traveling, impelled and driven by government's 'new instruments of power'."

Declaring that "we have lost our government of limited powers and adopted a government of unlimited powers," Mr. Mullendore went on to emphasize that "the implementation of these laws and policies of the Federal Government unlimited means that their repeal, or even their serious modification have been, are being, and will be fought by the people themselves—by those blocs of voters who believe they have vested interests in the maintenance of this new governmental regime. Labor, in the majority, believes it has a vested interest in maintaining Federal control over employment, employees and employers. Farmers, in the majority, believe they have a vested interest in maintaining subsidies, price parities, farm and crop lending agencies, and the multitude of other government aids to and hence controls over agriculture. Many lines of business also have subsidies to protect. There are powerful vested interests in government lending and government guarantee of loans for construction, to say nothing of grants-in-aid and the enormous direct construction projects of the Federal Government. Then the individual citizen, vitally interested in the future security of himself and his family, is for the most part thoroughly sold on 'social security,' either not knowing or not caring that government-guaranteed economic security means government guardianship and government guardianship means that as wards of government we lose freedom year by year surely even though with deceiving slowness in the early years. Finally, all of us realize that we have a vested interest in the maintenance of the price of government bonds, and hence we have a vested interest in that practice of Federal Reserve purchase of government bonds which underwrites the continuance of inflation, and of managed currency."

In answer to the obvious question, "What can we do about it," Mr. Mullendore had this to say: "We can cease being apathetic trustees of the most precious assets of our children and of generations yet to come. We can stop playing the game of 'Let's Pretend.' We of the business world do have a voice. Our fellow-citizens may not be interested in our political views but they are interested in the opinion of business leaders and business managers upon one question above all, viz.: 'How is business?' Have we any right to assure our fellow-citizens that business is wonderful and that we see no reason to doubt the genuineness or the continuance of this prosperity? Do we have any right to pretend not to see that which all of us must see, that we are in the midst of a dangerous inflation, that we are bound by the chains of an all-powerful government, and that the restrictions and rigidities imposed by this government will make it exceedingly difficult to restore the impaired elements of the American free market, and hence the American production system when once this inflation has run its dangerous course?

"If we really believe that Socialism is inevitable and that we must become reconciled to it, then shouldn't we say so, and do our part toward helping to learn how to adapt and modify our American ideas to the requirements of life in a Socialist State? And if we do not believe in the Socialist State, and are not willing to see our children condemned to living under such a regime, do we want to continue to further its establishment by lulling our fellow citizens into a false confidence here at this late hour?"

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Behind the scheduled Court and Federal Reserve Board hearings into the Transamerica case, there is a curious situation. It is that the proponents of banking combinations will get the first chance they have had in more than 13 years to speak their piece in public—and almost at the very moment an agreement is in sight on legislation providing for further regulation of bank holding companies.

Not since the Banking Act of 1935 was the subject of hearings, has the public heard the pros and cons of branch banking argued.

Transamerica, during the course of the proceedings before the Federal Reserve Board, may be expected to assert the advantages of branch banking. The company may be expected to assert them with no little vigor. With partisans as spectacular as Henry J. Kaiser, Transamerica is not likely to take a meek defense posture.

The West Coast institution won the first round when it forced the Board either to give more specifications of its charges or argue why it should not, and this will delay the Board's hearings which otherwise would have begun Tuesday.

Originally, the Federal Reserve Board planned to keep the whole question quiet until it had rendered a decision. Section 7 of the Clayton Act, the statute under which the Board is attempting to operate against Transamerica, does not require secret proceedings. It only relates to lessening competition, etc. The basis for keeping the proceedings secret was the Administrative Procedures Act of a couple of years ago. Under this act administrative hearings involving "sensitive areas of the economy," like the position of banks and insurance companies, may be, but are not required to be, held in private so if charges are not substantiated, harm which otherwise would come through publicity, can be avoided.

Transamerica, on the other hand, called for an end of secrecy. That the Federal Reserve Board was gunning for Transamerica has been a matter of record for some time, spilled by Chairman Tobey of the Senate Banking Committee last spring. The company asked that the whole complaint be opened up to public scrutiny. It believes that more harm can come than from the inspired stories than from an open hearing.

And, incidentally, Transamerica believes it can win its case both with public opinion and with the courts.

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Prior to the spilling out of the Transamerica case on to the front pages, Chairman McCabe of the Federal Reserve Board was making good progress toward an agreement on bank holding company legislation. Gov. McCabe has been interviewing all shades of banking opinion on the precise authority which the Federal Reserve Board should exercise, explicitly in the way of supervising the activities of bank holding companies. There is a prospect that the terms of a proposed bill for consideration of Congress will be written before the convening of the 81st Congress in January. The support which the American Bankers Association gave this move at its convention late last month, was accelerating the possibility of agreement on legislation.

Whether the Transamerica case will upset this prospect of agreement remains to be seen. In the House, legislation proposed this year by the Reserve Board, giving it broad discretion to regulate bank holding companies, was shelved. It was shelved with the understanding that if all the principal parties to the controversy reached a substantial agreement on the terms of a new bill, it would be ok'd by the House.

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There is a suspicion that military procurement, which has lagged behind appropriations for several years, is again lagging. This suspicion is aroused by officials who refuse to make public even the simplest figures showing the relationship of orders placed by the Military Establishment to funds appropriated. At the same time, however, officials will declare that they are moving right on schedule to place the orders as fast as the law and administrative practice allows them to. Much of the widely-predicted expectation that the military will spend $17 billion the next fiscal year is based on the premise that the Armed Services will spend this year all the money they have available.

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How a war can be financed when full production, full employment, and total income is being spent on civilian pursuits, is a subject which shortly will begin to receive serious study. The National Security Resources Board will sponsor the study. The Board is the top civilian agency charged with making policy for mobilizing the nation's production, manpower, and all other resources for the eventuality of war. It considers mobilizing the nation's finance as much a part of its business as planning the mobilization of men or machines.

Nevertheless, if war came soon, the Board would be without a finished plan of war financing. It has a tentative plan, to be used as a stop-gap in case war unexpectedly came. The details of that tentative plan, however, are entirely secret. Next month NSRB will work out a list of projects for the Federal Reserve, Treasury, and other agencies to study, to help it devise a more finished war finance mobilization plan.

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Washington, incidentally, is not hit nearly as hard by the war jitters as so much of the rest of the country seems to be, particularly the financial community of New York. No leading official in Washington will make a responsible, quotable prediction that the avoidance of war for several months is likely, without various qualifications. It is recognized that only the Russians can answer that question positively.

On the other hand, Washington knows that the United States is not disposed to precipitate a war. All the guesses here are that the Reds likewise are disposed to avoid any action which would cause the U. S. and western Europe to plunge into an all out military war.

However, the Reds know that the United States wants to avoid war and is not in a position to strike powerfully for some time. Hence they may be expected to kick the western world around just about as hard as they can short of starting a fight.

So what's ahead for the immediate future is a continuation of uncertainty and the constant threat of war.

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In this connection, some sources wonder privately at the feeling of so many businessmen that they must crimp their planning for more than a few months ahead because of the prospect of war. In the present state of the nation's economy, there is practically no hedge against war. The controls necessary to bludgeon the nation from its present high level of civilian activity toward an all-out war economy would be so sweeping that there is, practically speaking, no hedge against war. About all a businessman can do, it is suggested, is to plan as though there would be no war, and hope he has luck. Any little guess as to what he might best do with his money, his materials, his factory, or his production schedule would be all swept away into one gigantic flood of governmental control of his business if war came.

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Second class mail users probably will get it in the neck next year. Near the end of the session of Congress, a big raise was voted postal employees. Congress raised various postal rates and fees to make up only about half the enlarger postal deficit. The word already has been spread that Congress next winter will consider a postal rate boost. While various mail users may find their rates boosted, second class mail stands the surest chance of getting hit.

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Despite the clamor of institutional lenders for a higher GI home loan insurance rate, a boost in the rate is not expected before the election, and perhaps not before the Administration elected in November takes office.

As part of the housing bill passed by Congress during the special summer session, it was provided that the interest rate on GI-guaranteed home loans, now 4%, could be raised to 4½% with the permission of the Treasury.

In the face of a large decline in Veterans' Administration guarantees, the interest rate probably will not be raised. The politics are that it would be a greater liability to raise the cost of borrowing than to restore the flood of VA loans. The economics are that regardless of the drop in VA guarantees, everybody who can build an acceptable house seems to be getting all the mortgage money he needs.

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Actually, the whole monetary picture so far as the government can affect it, is likely to remain static until well after the election, perhaps until or after the new Administration takes office. It will not be for another month that officials can appraise the effects of monetary measures recently adopted—the rise in the 1-year government rate, the rise in the rediscount rate, and the boost in required legal reserves for both demand and time deposits.

Not until the monetary managers determine that commercial loans are rising at a rate beyond the seasonal demand, will they be in a position to say that further credit restriction is necessary. Likewise no new Treasury money is likely to be sought, no special issues, or other change put into effect.

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Senator Aiken, arguing on behalf of price supports, said that the 90% Steagall price supports were to the farmer what cost plus contracts were to industry! Cost plus but no renegotiation!

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